

## LIMITED OFFERING MEMORANDUM

NEW ISSUE—BOOK-ENTRY ONLY

NOT RATED

*In the opinion of Bond Counsel and the Attorney General of the State of Michigan, subject to compliance with certain covenants, under existing law as presently interpreted, (i) interest on the Bonds is excluded from gross income for federal income tax purposes to the extent and subject to the conditions described therein, (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) the Bonds and the interest thereon are exempt from all taxation provided by the laws of the State of Michigan, except for estate taxes and taxes on gains realized from the sale, payment or other disposition of the Bonds. See "TAX MATTERS" herein and APPENDICES G and H hereto.*

**\$3,200,000**

### **MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY LIMITED OBLIGATION REVENUE REFUNDING BONDS (CRESCENT ACADEMY PROJECT), SERIES 2008**

**Dated: Date of Delivery**

**Due: As shown on inside cover**

The Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008 (the "Bonds") will be issued by the Michigan Public Educational Facilities Authority (the "Issuer") as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form, in denominations of \$100,000 or any integral multiple of \$2,500 in excess thereof and purchasers will not receive physical certificates representing the ownership interest in the Bonds purchased by them. See "The Bonds – Book-Entry-Only System."

The Bonds will be issued under and pursuant to a Trust Indenture (the "Indenture") dated as of July 1, 2008 between U.S. Bank National Association, St. Paul, Minnesota (the "Trustee") and the Issuer. The Bonds are being issued to assist Crescent Academy (the "Academy") in restructuring a prior transaction involving the financing of the acquisition and equipping of certain real property and improvements thereon located in Southfield, Michigan and the refinancing of certain lease obligations (collectively, the "Prior Project"). The Issuer will use the proceeds of the Bonds to purchase the Academy's School Building and Site Refunding Bond, Series 2008, dated the date of issuance of the Bonds (the "Municipal Obligation") pursuant to a Financing Agreement dated as of July 1, 2008 (the "Financing Agreement") whereby the Issuer will receive Installment Payments, Additional Payments and Reserve Fund Payments from the Academy and the right to exercise remedies under the Financing Agreement. Proceeds from the sale and purchase of the Bonds and Municipal Obligation will be used by the Academy to refund a portion of \$7,090,000 Full Term Certificates of Participation (Crescent Academy Project), Series 2006 (the "Prior Obligations"), issued by the Academy to finance the Prior Project. The Bonds will be secured by a Mortgage dated as of July 1, 2008 (the "Mortgage") with respect to the real property and improvements thereon financed with a portion of the Prior Obligations. The Bonds will be further secured by an assignment made by the Academy in the Financing Agreement of the State School Aid (as defined herein) to be received by the Academy in each fiscal year from the State of Michigan, provided that a greater percentage of state aid may be intercepted in a given month subject to certain conditions in the event that funds available to the Academy to make a payment due under the Financing Agreement are insufficient. Pursuant to the State Aid Agreement dated as of July 1, 2008 (the "State Aid Agreement"), by and among the Academy, the State Treasurer of the State of Michigan, the Trustee, the Bay Mills Community College Board of Regents (the "Authorizing Body"), as fiscal agent for the Academy, and the Issuer, the Academy has directed that a portion of the State School Aid funds to be received by the Academy in each fiscal year from the State of Michigan be paid directly to the Trustee.

Interest on the Bonds will accrue from the date of delivery and will be payable semi-annually on each April 1 and October 1, commencing April 1, 2009. Principal of and interest on the Bonds will be paid by the corporate trust office of U.S. Bank National Association, the Trustee. So long as DTC or its nominee, Cede & Co., is the Registered Owner of the Bonds, such payments will be made directly to DTC. Disbursements of such payments to the Direct Participants is the responsibility of DTC, and disbursements of such payments to the beneficial owners is the responsibility of the Direct Participants and the Indirect Participants, as more fully described herein.

The Bonds are subject to optional and mandatory redemption as described in this Limited Offering Memorandum. See "The Bonds – Redemption of the Bonds Prior to Maturity" herein.

Lord Abbett Municipal Income Trust-Lord Abbett High Yield Municipal Bond Fund, Pioneer Municipal High Income Advantage Trust, Wells Fargo Advantage Municipal Bond Fund and Pacific Investment Management Company LLC (collectively, the "Institutional Investors") are purchasing all of the Bonds.

THE BONDS AND ANY ADDITIONAL BONDS ARE PAYABLE SOLELY FROM THE ACADEMY PAYMENTS AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE ACADEMY PAYMENTS. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, THE ISSUER, BAY MILLS COMMUNITY COLLEGE (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, THE ISSUER, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER. SEE "Sources of Payment and Security for the Bonds" AND "Risk Factors."

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. Investors must read this entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption "Risk Factors" herein.**

The Bonds are offered when, as and if issued by the Issuer, subject to the approving legal opinion of Varnum, Riddering, Schmidt & Howlett LLP, Grand Rapids, Michigan, Bond Counsel, and the Attorney General of the State of Michigan, and certain other conditions. Certain legal matters, including the enforceability of the Municipal Obligation and the Mortgage, will be passed upon by Clark Hill PLC, Birmingham, Michigan, as counsel to the Academy, and by Dickinson Wright PLLC, as counsel to the Placement Agent. It is expected that the Bonds in book-entry form will be available for delivery against payment therefor on or about July 31, 2008.



Dated: July 30, 2008

## **MATURITY SCHEDULE**

### **Term Bonds**

\$3,200,000 7.00% Term Bond Due October 1, 2036 – Price 100% CUSIP 594569 CX1

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Academy, or the Placement Agent to give any information or to make any representation with respect to the Bonds other than those contained in this Limited Offering Memorandum, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Limited Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy and, there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The descriptions of the documents in the Limited Offering Memorandum are summaries thereof and reference is made to the actual documents for a complete understanding of the contents of such documents.

The Trustee assumes no responsibilities for this Limited Offering Memorandum and has not reviewed or undertaken to verify any information contained herein.

IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS LIMITED OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE ISSUER (WITH RESPECT TO THE INFORMATION UNDER THE CAPTION "THE ISSUER" ONLY), THE ACADEMY, DTC AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY AND COMPLETENESS, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE PLACEMENT AGENT. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS LIMITED OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

**This Limited Offering Memorandum contains forward-looking statements, which can be identified by the use of the future tense or other forward-looking terms such as "may," "intend," "will," "expect," "anticipate," "plan," "management believes," "estimate," "continue," "should," "strategy," or "position" or the negatives of those terms or other variations of them or by comparable terminology. In particular, any statements, express or implied, concerning future receipts of federal grants or the ability to generate cash flow to service indebtedness are forward-looking statements. Investors are cautioned that reliance on any of those forward-looking statements involves risks and uncertainties and that, although the Academy's management believes that the assumptions on which those forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions also could be incorrect, and actual results may differ materially from any results indicated or suggested by those assumptions. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Limited Offering Memorandum should not be regarded as a representation by the Academy that its plans and objectives will be achieved. All forward-looking statements are expressly qualified by the cautionary statements contained in this paragraph. The Academy undertakes no duty to update any forward-looking statements.**

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## TABLE OF CONTENTS

	<u>Page</u>	<u>Page</u>
INTRODUCTION .....	1	
THE PROJECT .....	2	
USE OF PROCEEDS .....	2	
THE PLAN OF REFUNDING AND SETTLEMENT AGREEMENT .....	2	
THE ISSUER .....	4	
THE ACADEMY .....	5	
SOURCES AND USES OF FUNDS .....	6	
THE BONDS .....	6	
General .....	6	
Redemption of Bonds Prior to Maturity .....	7	
Book-Entry-Only System .....	8	
SOURCES OF PAYMENT AND SECURITY FOR THE BONDS .....	10	
General .....	10	
Additional Bonds and Additional Indebtedness .....	10	
The Financing Agreement and the Municipal Obligation .....	11	
State School Aid Pledge .....	11	
Direct Transfer of State School Aid by State Treasurer for Payment of the Financing Agreement .....	11	
State School Aid Source .....	12	
The Reserve Fund .....	13	
The Mortgage and the Environmental Report .....	14	
Certain Financial Information Concerning the State .....	14	
Limited Obligation .....	14	
CHARTER SCHOOLS IN MICHIGAN .....	14	
General .....	14	
Michigan Supreme Court Upholds Law .....	14	
Michigan School Finance Reform .....	15	
LIMITATION ON ADDITIONAL BONDS AND ADDITIONAL INDEBTEDNESS .....	15	
Additional Bonds .....	15	
Other Additional Indebtedness .....	17	
RISK FACTORS .....	17	
Speculative Investment; Absence of Rating ....	17	
Possible Litigation .....	18	
Forensic Audits .....	18	
Public School Academies Generally .....	18	
Sufficiency of Revenues .....	18	
No Taxing Authority .....	18	
		Dependence on State School Aid Payments; State School Aid Payments Subject to Annual Appropriation .....
		19
		Delay in, Reduction, or Termination of State School Aid .....
		19
		Changes in Law .....
		19
		Limitation of Availability of State School Aid .....
		19
		Environmental Issues Regarding the Facility ..
		19
		Economic and Other Factors .....
		20
		Revocation or Non-Renewal of Charter .....
		20
		Recent Actions by Charter Authorizers .....
		21
		Limited Operating History; Reliance on Projections .....
		21
		Existing and Prospective Operations Generally .....
		22
		Competition for Students .....
		22
		Factors Associated with Education .....
		23
		Compliance with the No Child Left Behind Act of 2001 .....
		23
		Performance by Management Company .....
		23
		Future Need for the Facility .....
		23
		Collateral Insufficiency .....
		23
		Inability to Liquidate or Delay in Liquidating the Facility .....
		24
		Damage or Destruction of the Facility .....
		24
		Value of Property May Fluctuate .....
		24
		Key Management .....
		25
		Resale of Bonds/Lack of Secondary Market ...
		25
		Enforceability of Remedies; Bankruptcy .....
		25
		Determination of Taxability .....
		25
		Factors Associated with the Academy's Operations .....
		25
		TAX MATTERS .....
		26
		General .....
		26
		Future Developments .....
		26
		APPROVAL OF LEGAL PROCEEDINGS .....
		27
		BEST EFFORTS PRIVATE PLACEMENT .....
		27
		LITIGATION .....
		27
		CONTINUING DISCLOSURE REQUIREMENTS .....
		28
		BONDS NOT A DEBT OF STATE .....
		28
		LEGALITY FOR INVESTMENT .....
		28
		FINANCIAL STATEMENTS .....
		28
		MISCELLANEOUS .....
		29
APPENDIX A	CRESCENT ACADEMY .....	A-1
APPENDIX B	FORECASTED FINANCIAL STATEMENTS – JUNE 30, 2009 THROUGH 2013 .....	B-1

APPENDIX C	AUDITED FINANCIAL STATEMENTS FOR THE ACADEMY FOR THE YEAR ENDED JUNE 30, 2005, JUNE 30, 2006 AND JUNE 30, 2007 .....	C-1
APPENDIX D	SUMMARY OF CERTAIN MICHIGAN STATUTORY PROVISIONS PERTAINING TO PUBLIC SCHOOL ACADEMIES.....	D-1
APPENDIX E	COPY OF SETTLEMENT, TENDER AND RELEASE AGREEMENT.....	E-1
APPENDIX F	FORMS OF THE TRUST INDENTURE AND THE FINANCING AGREEMENT .....	F-1
APPENDIX G	FORM OF OPINION OF BOND COUNSEL.....	G-1
APPENDIX H	FORM OF OPINION OF THE ATTORNEY GENERAL.....	H-1
APPENDIX I	FORM OF CONTINUING DISCLOSURE AGREEMENT.....	I-1
APPENDIX J	SUMMARY OF REQUIREMENTS FOR SCHOOLS NOT MAKING AYP UNDER THE NO CHILD LEFT BEHIND ACT .....	J-1

**LIMITED OFFERING MEMORANDUM**  
**\$3,200,000**  
**MICHIGAN PUBLIC EDUCATIONAL**  
**FACILITIES AUTHORITY**  
**LIMITED OBLIGATION REVENUE REFUNDING BONDS**  
**(CRESCENT ACADEMY PROJECT), SERIES 2008**

**INTRODUCTION**

This Limited Offering Memorandum (including the cover page and Appendices) is provided to furnish information in connection with the issuance and sale by the Michigan Public Educational Facilities Authority (the "Issuer") of its Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008 in the aggregate principal amount of \$3,200,000 (the "Bonds"). The Bonds will be limited obligations of the Issuer as described under the caption "Sources of Payment and Security for the Bonds" herein.

The Bonds will be issued under a Trust Indenture, dated as of July 1, 2008 (the "Indenture"), between the Issuer and U.S. Bank National Association, as Trustee (the "Trustee"). The proceeds of the Bonds will be used to purchase the School Building and Site Refunding Bond, Series 2008, dated as of July 31, 2008 (the "Municipal Obligation") issued by Crescent Academy (the "Academy") pursuant to Act No. 451, Public Acts of Michigan, 1976, as amended. Proceeds from the sale of the Bonds and the Municipal Obligation will be used to (i) provide funds to refinance a portion of the Prior Project that includes only the acquisition and equipping of certain real property and improvements thereon located at 17570 West 12 Mile Road, Southfield, Michigan 48076; and (ii) provide funds to pay certain costs relating to the issuance of the Bonds (the "Project"). The Project does not include the refinancing of certain equipment leases previously refinanced with proceeds from the Prior Obligations (as herein defined) and included in the Prior Project. Accordingly, the restructuring of the Prior Project will be accomplished by refunding a portion of the Full Term Certificates of Participation (Crescent Academy Project), Series 2006 (the "Prior Obligations"), issued and currently outstanding in the aggregate principal amount of \$7,090,000 and forgiveness of the remaining debt obligation related to the Prior Obligations by the Institutional Investors (as defined on the cover page) pursuant to a Settlement, Tender and Release Agreement among the Academy, the Prior Trustee (as defined below) and the Institutional Investors, dated July 25, 2008, as amended. See "Use of Proceeds", "The Plan of Refunding and Settlement Agreement" and "Appendix E – Copy of Settlement, Tender and Release Agreement" for further discussion.

Principal of, interest and premium, if any, on the Bonds and any Additional Bonds as defined herein are payable solely from funds pledged under the Indenture, including the Academy's payments (the "Academy Payments") due under both the Municipal Obligation and the Financing Agreement dated as of July 1, 2008 between the Issuer and the Academy (the "Financing Agreement").

In order to ensure that the Academy will meet its obligations to make the Academy Payments, the Academy has assigned a portion (not exceeding twenty percent (20%)) of the State School Aid to be received by the Academy from the State of Michigan (the "Direct Payments") and other funds pledged by the Academy under the Indenture. Pursuant to the State Aid Agreement (the "State Aid Agreement") dated as of July 1, 2008, by and among the Academy, the Trustee, the Issuer, the Bay Mills Community College Board of Regents ("BMCC" or the "Authorizing Body"), as authorizing body and fiscal agent for the Academy, and the State Treasurer, the Direct Payments are to be paid to the Trustee and used to pay debt service on the Bonds. The Bonds will be further secured by a mortgage (the "Mortgage") granting the Trustee a first mortgage lien, subject to permitted encumbrances, on the school facility and real estate comprising the Facility (as defined below).

THE BONDS AND ANY ADDITIONAL BONDS ARE PAYABLE SOLELY FROM THE ACADEMY PAYMENTS AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY (20%) PERCENT OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE ACADEMY PAYMENTS. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL,



OR MORAL, OF THE STATE, THE ISSUER, BAY MILLS COMMUNITY COLLEGE BOARD OF REGENTS (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER. SEE "Sources of Payment and Security for the Bonds" AND "Risk Factors."

## **THE PROJECT**

The "Project" consists of (i) refinancing the acquisition of approximately 1.35 acres of land and an approximately 31,000 square foot, two story school building to be used as a public school academy located at 17570 West Twelve Mile Road, Southfield, Michigan 48076, including existing fixtures and improvements (the "Facility") and (ii) providing funds to pay certain costs of issuing the Bonds. The Facility contains seventeen (17) classrooms, a music room, a computer lab, nine (9) office/meeting rooms, a gymnasium/cafeteria/multipurpose room, a library, kitchen, restroom facilities and ancillary areas. The construction of the building is brick on the original structure and block on a recent addition. Parking is located in front of the Facility. The Facility can comfortably accommodate 330 students and, if necessary, could accommodate up to 346 students.

For further information on the Project, see "APPENDIX A – CRESCENT ACADEMY – The Academy's Facility."

## **USE OF PROCEEDS**

The proceeds from the Bonds and the purchase and sale of the Municipal Obligation will be used (1) to refund a portion of the Prior Obligations issued pursuant to a Declaration of Trust, dated as of December 1, 2006 (the "Prior Indenture") by U.S. Bank National Association (the "Prior Trustee") and joined in by the Academy and Dr. Charles Drew Academy, a public school operating under the laws of the State of Michigan ("Drew Academy") and (2) to pay the costs of issuing the Bonds. The Prior Obligations are currently outstanding in the aggregate principal amount of \$7,090,000. Proceeds of the Bonds in an amount not less than \$2,900,000 will be used for the purpose of partially refunding the Prior Obligations. The Institutional Investors have each agreed to tender their proportionate share of the Prior Obligations on the date of issuance of the Bonds for less than their full face value under a Settlement, Tender and Release Agreement dated July 25, 2008, as amended (as amended, the "Settlement Agreement") among the Institutional Investors, the Academy and the Prior Trustee. See "The Plan of Refunding and Settlement Agreement" below and "Appendix E – Copy of Settlement, Tender and Release Agreement" for details concerning the Settlement Agreement. The Prior Obligations will no longer remain outstanding upon issuance of the Bonds.

## **THE PLAN OF REFUNDING AND SETTLEMENT AGREEMENT**

### **Plan of Refunding**

The Prior Obligations were issued on December 15, 2006 to finance the Prior Project. The Academy issued \$7,090,000 in aggregate principal amount of Full Term Certificates of Participation (Crescent Academy Project) Series 2006. The proceeds were allocated as follows:

\$5,000,000.00	purchase price of the Facility paid to SAAS Development LLC, an entity, certain members of which have a controlling interest in Helicon Associates, Inc., the Academy's former management company and its management company on the date of issuance of the Prior Obligations.
780,000.00	refinancing of certain equipment leases between the Academy and certain multiple parties, including Helicon Associates, Inc.
222,967.87 <sup>1</sup>	accrued and capitalized interest on the Prior Obligations.

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<sup>1</sup> Includes accrued interest of \$21,516.18



522,512.50	Reserve Account for the Prior Obligations.
15,000.00	Repair and Replacement Account for the benefit of the Academy.
571,035.81	certain costs of issuing the Prior Obligations, including underwriter's discount and a rounding factor.
<u>\$7,111,516.18<sup>1</sup></u>	

The Academy's Authorizing Body became aware of the Transaction (as defined below) subsequent to the issuance of the Prior Obligations and deemed that certain irregularities in the Transaction were violations of the Charter (as defined below under "The Academy") as more fully described below. The Academy proposed a Plan of Correction to the Authorizing Body (the "Correction Plan") in an effort to prevent termination of its Charter.

In support of the Academy's Correction Plan, the Academy received a forensic appraisal of the Facility dated March 14, 2008 which estimated the market value of the Facility to be \$3,200,000 as of December 20, 2006. The Academy has determined and the Institutional Investors have agreed in the Settlement Agreement that the Bonds shall be issued in the aggregate principal amount of \$3,200,000 to refund only that portion of the Prior Obligation relating to the Facility. The Institutional Investors have further agreed to tender all of the Prior Obligations and to seek recovery for their losses from other sources as described below. (Also see "Risk Factors" herein.)

### **The Settlement, Tender and Release Agreement**

On April 17, 2007, the Academy's Authorizing Body issued a Notice of Intent to Revoke (the "Notice of Intent"), which alleged various irregularities with the transaction pertaining to and including the issuance of the Prior Obligations (the "Transaction") and required that the Academy unwind the Transaction or risk termination of its Charter. In the Notice of Intent, the Authorizing Body alleged, among other things, (1) completion of the Transaction without obtaining approval from the Authorizing Body as required by the Charter, (2) breach of fiduciary duties by former Academy board members, (3) improper delegation of authority, (4) violation of applicable law regarding conflicts of interest with public servants and public entities, and (5) violations of the Michigan Uniform Budget and Accounting Act.

In response to the Notice of Intent, the Academy's board of directors resigned and the Correction Plan, dated as of August 8, 2007 was approved by a new board of directors of the Academy on August 16, 2007. In the Correction Plan, the new board of directors of the Academy acknowledged the allegations in the Notice of Intent and approved certain corrective actions to address the allegations including the unwinding of the Transaction. Other corrective actions approved in the Correction Plan and subsequently implemented, include, among other things (1) the hiring of new legal counsel, (2) termination of the contract with Helicon Associates, Inc., its then current management company, and hiring CS Partners, LLC and CSP Management, Inc. (collectively "CS Partners") as its new management company, and (3) cooperating with a forensic auditor engaged by the Authorizing Body.

The Academy, the Prior Trustee and the Institutional Investors holding not less than 85% of the outstanding Prior Obligations initially executed an Unwind Plan and Limited Standstill Agreement, dated February 28, 2008, as subsequently amended (the "Unwind Agreement"), which provided certain temporary accommodations by the Prior Trustee and Institutional Investors to the Academy in order to permit the Academy to continue to operate the school and to mitigate any damages to the Academy while a plan to unwind the Transaction could be formulated and implemented as required by the Correction Plan. The Unwind Agreement deferred the payment of certain debt service payments required by the documents relating to the Transaction and provided that the Institutional Investors would not declare a default or an event of default. See "Appendix A – Crescent Academy-Debt History."

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<sup>1</sup> Includes accrued interest of \$21,516.18

At the request of the Academy, the Institutional Investors, in a effort to mitigate damages suffered by them as a result of the Authorizing Body's requirement that the Academy unwind the Transaction in order to preserve the Academy's Charter, executed the Settlement Agreement which provides, among other things, (i) for a refinancing by the Academy of a portion of the Prior Obligations with refunding bonds (the "Partial Refunding"), (ii) that any principal amount of the Prior Obligations which remains outstanding after issuance of the Bonds and application of the proceeds as provided in the Indenture and in the Settlement Agreement, any interest on such Prior Obligations, and any other amounts due and payable under any documents relating to the Transaction which remain outstanding after consummation of the Partial Refunding (the "Remaining Certificate Claim") shall be payable solely from the amounts the Institutional Investors recover or have recovered from their claims against third parties related to the Transaction and/or their purchase of the Prior Obligations (the "Third-Party Recoveries"), (iii) that the Academy's payment obligations under the Prior Obligations and the Transaction to the Institutional Investors shall be deemed extinguished, and (iv) that the Prior Obligations shall be cancelled and any documents relating to Transaction shall cease, terminate and become void.

The Settlement Agreement provides that once the Bonds are sold and the proceeds are deposited in the various accounts as described in the Settlement Agreement and the Indenture, the Academy's obligations to the Institutional Investors with respect to the Prior Obligations shall be deemed extinguished and the Prior Obligations shall be cancelled and the Prior Indenture and all other financing documents and agreements related thereto shall cease, terminate and become void.

In the Settlement Agreement, the Institutional Investors agreed that the Remaining Certificate Claim shall not constitute an obligation, either general, special or moral, of, the Academy, Drew Academy, the State of Michigan, the Issuer, the Central Michigan University Board of Trustees (the authorizing body for Drew Academy) or the Authorizing Body and further acknowledged that upon completion of the Partial Refunding as provided in the Settlement Agreement, neither, the Academy, Drew Academy, the State of Michigan, the Issuer, the Central Michigan University Board of Trustees, nor the Authorizing Body shall have any liability whatsoever arising in any manner from or relating to the Prior Obligations or the Transaction, except for the obligations of the Academy under the Settlement Agreement. See "Appendix E – Copy of Settlement, Tender and Release Agreement" for further details concerning the Settlement Agreement.

The Settlement Agreement further provides for mutual releases among the Academy, the Prior Trustee and the Institutional Investors of claims, causes of action, rights, remedies, damages, liabilities, and expenses relating to the Prior Obligations and the Transaction subject to differing reservation of rights against third parties. See "Appendix E – Copy of Settlement, Tender and Release Agreement" for complete text of the releases attached as Exhibit A to the Settlement, Tender and Release Agreement.

If the Charter School's Office Director (the Authorizing Body's representative), in his discretion, determines that the Academy Board has not complied with part or all of the Correction Plan, the Charter School's Office Director can initiate a revocation hearing to revoke the Charter. NOTHING IN THE CORRECTION PLAN IN ANY WAY LIMITS OR RESTRICTS THE AUTHORIZING BODY'S RIGHT TO OTHERWISE TERMINATE THE CHARTER. See "Risk Factors – Revocation or Non-Renewal of Charter."

## **THE ISSUER**

The Issuer is a public body corporate and politic of the State of Michigan (the "State"), created by Executive Order 2002-3, compiled at §12.192 of the Michigan Compiled Laws, and is housed within the Michigan Department of Treasury. The Issuer was established for, among other purposes, the purpose of lending money to public school academies within the State for financing or refinancing the acquisition, construction and equipping of public school facilities and for other purposes. In order to effectuate such purposes, the Issuer is authorized to issue its bonds or notes and to make money available to public school academies by the purchase of, among other things, municipal obligations or making loans to a nonprofit corporation for the benefit of a public school academy.

The Issuer is governed by a Board of Trustees (the "Board"). The members of the Board are appointed by the Governor of the State with the advice and consent of the State Senate. The members serve for various terms and continue to serve until successors are appointed and file the oath of office. The members of the Board are:

David S. Mittleman Chairman	Partner Church Wyble, P.C. Lansing, Michigan
Amal M. Berry-Brown	Vice President of Business Affairs Management Comerica Bank Detroit, Michigan
Mark J. Burzych	Attorney Fahey Schultz Burzych Rhodes, PLC Okemos, Michigan
Timothy A. Hoffman	Director of Regulatory Affairs Consumers Energy Lansing, Michigan
Robert J. Kleine	State Treasurer Lansing, Michigan

The Indenture provides that the covenants, stipulations, promises, agreements and obligations of the Issuer contained in the Indenture are those of the Issuer and not of any member of the Board or any officer or employee of the Issuer in his or her individual capacity and that no recourse shall be had for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or on the Indenture against any member of the Board, any officer or employee of the Issuer or any person executing the Bonds.

The Issuer is housed within the State of Michigan Department of Treasury but exercises its statutory functions independently of the State Treasurer. The Issuer's address is Richard H. Austin State Office Building, 430 West Allegan Street, 1<sup>st</sup> Floor, Lansing, Michigan 48922, and its telephone number is (517) 335-0994.

The Executive Director of the Issuer is Thomas J. Letavis.

The Bonds are limited obligations of the Issuer as described in this Limited Offering Memorandum. The Issuer is not generally liable on the Bonds or on any other obligation incurred by the Issuer under the Indenture or the Financing Agreement. The Bonds are not general obligations and do not constitute debts or pledges against the general credit of the Issuer or the credit or taxing power of the State of Michigan. The Bonds are limited obligations of the Issuer, which will, if and when issued, be payable solely through revenues, properties or other funds of the Academy as described in this Limited Offering Memorandum, the Indenture and the Financing Agreement. No owner of any Bond shall have the right to demand payment of the principal of, premium, if any, or interest on such Bond out of any funds to be raised by taxation. The Issuer has no taxing power.

The Issuer has not prepared any material for inclusion in this Limited Offering Memorandum except the matters under this heading "The Issuer." The distribution of this Limited Offering Memorandum has been duly approved and authorized by the Issuer. Such approval and authorization do not, however, constitute a representation of approval by the Issuer of the accuracy or sufficiency of any information contained herein except to the extent of the information contained in this Section.

## **THE ACADEMY**

The Academy is a Michigan non-profit corporation and a governmental agency of the State of Michigan operating as a public school academy, organized pursuant to Part 6A of Chapter 380 of the Michigan Revised School Code, Michigan Compiled Laws ("M.C.L.") § 380.501 et. seq. and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. § 450.2101 et. seq.

The Academy began operations in 2004 as a public school academy. The Academy's mission is to develop a foundation for success in a knowledge-based society by offering an educational setting that nurtures in each student a deep and abiding curiosity as a prerequisite for sustained learning across a lifetime.

The Academy is governed by a volunteer Board of Directors and operates under a charter contract (the “Charter”) with the Bay Mills Community College Board of Regents (“BMCC”), the Academy’s authorizing body. The Charter is set to expire on June 30, 2012.

The Academy changed management companies in September, 2007 and the Academy’s educational facilities and programs are now managed pursuant to a management contract with CS Partners, expiring June 30, 2012. For additional information regarding the Academy and CS Partners, see “Appendix A – Crescent Academy.”

## SOURCES AND USES OF FUNDS

Proceeds from the sale of the Bonds, together with other available funds, are expected to be used to (i) provide funds to the Academy to accomplish the Partial Refunding; (ii) fund a debt service reserve fund; and (iii) provide funds to pay certain costs relating to the issuance of the Bonds.

Sources of Funds:	
Bond Proceeds (Par Amount)	\$3,200,000.00
Issuer Contribution to Reserve Fund	<u>269,350.00</u>
Total Sources:	<u>\$3,469,350.00</u>
Uses of Funds:	
Deposit to Project Fund	
(to Partially Refund Prior Obligations)	\$2,915,462.50
Deposit to Reserve Fund (from Issuer	
Contribution)	269,350.00
Costs of Issuance (including	
Placement Agent’s fee)*	<u>\$ 284,537.50</u>
Total Uses:	<u>\$3,469,350.00</u>

\*Includes estimated costs for legal, accounting, trustee, printing and other expenses relating to the issuance of the Bonds.

## THE BONDS

### General

The Bonds will be issuable as fully registered bonds without coupons in denominations of \$100,000 or any integral multiple of \$2,500 in excess thereof (“Authorized Denominations”). The Bonds will mature on the dates and in the amounts set forth on the inside cover page of this Limited Offering Memorandum, subject to redemption prior to maturity, and will bear interest until paid at the rates shown on the inside cover page of this Limited Offering Memorandum, payable semi-annually on April 1 and October 1 of each year, commencing on April 1, 2009 (each an “Interest Payment Date”).

Interest on the Bonds is computed on the basis of a 360-day year comprised of twelve 30-day months. Payments of principal of and premium, if any, with respect to the Bonds will be made upon surrender of the Bonds at the office of the Trustee. Payments of interest on the Bonds will be made by check or draft mailed on or before each Interest Payment Date to the Registered Owner thereof as of the Record Date at his or her address as it last appears on the registration books of the Trustee irrespective of any transfer or exchange of the Bonds subsequent to the Record Date and prior to such Interest Payment Date. The “Record Date” means the 15th day of the calendar month immediately preceding any Interest Payment Date, or as otherwise specified in the Indenture.

## Redemption of Bonds Prior to Maturity

### *Optional Redemption*

The Bonds maturing on October 1, 2036 are subject to redemption at the option of the Academy in whole or in part in multiples of \$2,500 on any business day commencing on or after October 1, 2018, which date shall be the first day for which notice of redemption may be given under the Indenture at a redemption price of 100% of the principal amount plus accrued interest to the date of redemption.

### *Mandatory Sinking Fund Redemption*

The Bonds maturing October 1, 2036 are subject to mandatory sinking fund redemption on October 1, 2009 and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Revenue Account established pursuant to the Indenture as follows:

<b>Term Bonds Maturing October 1, 2036</b>	
<b>Year (October 1)</b>	<b>Principal Amount</b>
2009	\$5,000
2010	40,000
2011	45,000
2012	50,000
2013	50,000
2014	55,000
2015	60,000
2016	65,000
2017	70,000
2018	75,000
2019	80,000
2020	85,000
2021	90,000
2022	95,000
2023	105,000
2024	110,000
2025	120,000
2026	125,000
2027	135,000
2028	145,000
2029	155,000
2030	165,000
2031	175,000
2032	190,000
2033	205,000
2034	220,000
2035	235,000
2036**	250,000

\*\* Maturity Date

### ***Mandatory Redemption Upon Determination of Taxability***

The Bonds are subject to mandatory redemption prior to maturity, as a whole and not in part, on the earliest practicable date for which notice can be given following the occurrence of a Determination of Taxability under the Indenture, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

### ***Mandatory Redemption From Insurance and Condemnation Proceeds***

The Bonds are subject to mandatory redemption in whole at any time or in part (and if in part in Authorized Denominations; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) on any Interest Payment Date, at a redemption price equal to 100% of the aggregate principal amount of the Bonds to be redeemed plus accrued interest to the redemption date, in an amount equal to any insurance or condemnation proceeds deposited with the Trustee for the purpose of redemption pursuant to the Financing Agreement.

### ***Notices of Redemption***

Under the Indenture, the Trustee shall give notice of each redemption to the Registered Owner of any Bonds designated for redemption in whole or in part at the address as shall last appear upon the registration books maintained by the Trustee by mailing a copy of the redemption notice by first-class mail at least 30 days but not more than 45 days prior to the Redemption Date. The failure of the Trustee to give notice to an Owner or the failure of any Owner to receive notice, or any defect in such notice will not affect the validity of the redemption of any Bonds.

Upon surrender of any Bond in a denomination greater than the minimum Authorized Denomination, which Bond has been called for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the Registered Owner thereof a new Bond or Bonds of Authorized Denominations in an aggregate principal amount equal to, and otherwise the same as, the unredeemed portion of the Bond surrendered.

### **Book-Entry-Only System**

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate in typewritten form will be issued for each stated maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO BONDHOLDERS, HOLDERS OR OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers



and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Academy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participant’s accounts upon DTC’s receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.



DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository); in that event, the Bond certificates will be printed and delivered to the Participants for delivery to the Beneficial Owners. The information in this section concerning DTC and DTC's book entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer assumes no responsibility for the accuracy thereof.

NEITHER THE ISSUER, THE ACADEMY, THE TRUSTEE, NOR THE PLACEMENT AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY OF ANY NOTICE BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO BONDHOLDERS UNDER THE TERMS OF THE INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### **General**

The Bonds are limited obligations of the Issuer and are payable, on a parity basis with any Additional Bonds, by the Issuer solely from the Academy Payments due under both the Financing Agreement and the Municipal Obligation and other funds pledged under the Indenture. The Academy has pledged a portion of its State School Aid payments to pay the Academy Payments and with respect to this pledge the Academy has entered into a State Aid Agreement dated as of July 1, 2008 relating to the intercept and/or advance of its State School Aid payments. The Bonds will be further secured by the Mortgage granting the Trustee a first mortgage lien, subject to permitted encumbrances, on the Facility.

THE BONDS AND ANY ADDITIONAL BONDS ARE PAYABLE SOLELY FROM THE ACADEMY PAYMENTS AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE ACADEMY'S PAYMENTS. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, BAY MILLS COMMUNITY COLLEGE, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER.

### **Additional Bonds and Additional Indebtedness**

The Indenture permits the issuance of Additional Bonds (the "Additional Bonds"), which shall be secured on a parity basis with the Bonds, provided that the Academy satisfies certain covenants with respect to additional indebtedness. The Academy may also incur other additional indebtedness as described in the Financing Agreement. See "Limitation on Additional Bonds and Additional Indebtedness" below for a description of the terms and conditions under which the Issuer may issue Additional Bonds and the Academy may incur additional indebtedness.

## **The Financing Agreement and the Municipal Obligation**

Under the Financing Agreement, the Issuer agrees to issue, sell and deliver the Bonds pursuant to the Indenture and cause the proceeds of the sale of the Bonds to be deposited with the Trustee and applied as contemplated by the Indenture. The Academy will pay periodic installments in the amounts and on the dates set forth in the Municipal Obligation and the Financing Agreement to the Trustee as assignee of the Issuer. The obligation of the Academy to pay the Bond Payments and Additional Payments (each as defined in the Financing Agreement) and all amounts required by the Municipal Obligation and the Financing Agreement are an absolute and unconditional general obligation of the Academy and are not subject to diminution by set-off, recoupment, counterclaim, abatement or otherwise. The Academy has no taxing power. It is the intent and expectation of the Academy and the Issuer that the Bond Payments will be sufficient for the payment in full of the principal of and interest on the Bonds.

## **State School Aid Pledge**

Pursuant to the Financing Agreement, the Academy has pledged the State School Aid payments to be received by it in each fiscal year from the State (the "Pledged State School Aid") to pay the Bond Payments and any Additional Payments due under the Financing Agreement; provided that the Pledged State School Aid applied by the Trustee under the Indenture on behalf of the Academy to pay Bond Payments under the Financing Agreement in any fiscal year of the Academy shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy in such fiscal year.

The Academy agrees with the Issuer under the Financing Agreement that if the State School Aid Act is modified to provide for a different schedule of periodic State School Aid payments than that now in effect, the Issuer, by written notice to the Trustee, the State Treasurer, the Academy and its Authorizing Body may designate different payment dates (and, to the extent necessary, different payment amounts) to provide for timely receipt of Bond Payments consistent with such revised State School Aid payment schedule.

## **Direct Transfer of State School Aid by State Treasurer for Payment of the Financing Agreement**

Under the Financing Agreement, the Academy has agreed to pay the Bond Payments and Additional Payments from the State School Aid to be allocated to it and payable to its Authorizing Body. The Issuer and the Academy in the Financing Agreement, and the Academy and the Authorizing Body in the State Aid Agreement, agree that the State Treasurer is irrevocably directed, starting in October, 2008, to transmit an amount approximately equal to 1/11 of the annual principal payments scheduled on the Bonds plus 1/11 of the annual interest obligation on the Bonds plus 1/11 of the Scheduled Fee Payment Component (as defined in the Financing Agreement) on the 20<sup>th</sup> of each January, February, March, April, May, June, July, August, October, November and December (or, if the 20<sup>th</sup> falls on a Saturday, Sunday or legal holiday, on the immediately succeeding regular business day) directly to the Trustee; provided, that the amounts applied by the Trustee to Bond Payments in any fiscal year of the State shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy in such fiscal year.

If for any reason the amount held by the Trustee on the due date of any Bond Payment and Additional Payment is insufficient to pay the Bond Payment or Additional Payment due under the Financing Agreement, then in that event the Academy pledges to use any and all other available funds to satisfy that Bond Payment or Additional Payment obligation.

If, on the due date for any Academy Payment, the funds with the Trustee are insufficient to pay the Bond Payment or Additional Payment due under the Financing Agreement, the Academy, pursuant to the State School Aid Act to the extent necessary to meet that payment obligation, assigns to the Issuer and authorizes and directs the State Treasurer to intercept and/or advance not to exceed 97% of any State School Aid payment to be made to or for the Academy which is dedicated for distribution or for which the appropriation authorizing such payment has been made. Any such advance will be made directly to the Trustee and applied on the following priority basis: first, payment of any overdue and unpaid obligation to the Authority under the Financing Agreement or the Municipal Obligation; second, payment of the Scheduled Principal Component, the Scheduled Set-Aside Component, the Scheduled Interest Component and the Scheduled Fee Payment Component of the Scheduled Installment Payment (as such terms are defined in the Financing Agreement) payable to the Authority under the Financing Agreement;

third, payment of Additional Payments; and fourth, to the Authorizing Body for distribution to the Academy or as otherwise directed by the Academy. The Financing Agreement provides that any such intercept and/or advance process with respect to the Academy shall continue until sufficient funds are deposited with the Trustee to pay all of the Academy's Bond Payments and Additional Payments due under the Financing Agreement. Notwithstanding the foregoing, no more than twenty (20%) percent of the State School Aid payments received by the Academy in each fiscal year may be legally available to pay scheduled principal and interest on the related Bonds through its Bond Payments due under the Financing Agreement.

### **State School Aid Source**

The primary source of revenue received by the Academy is State School Aid which is a per pupil foundation allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature.

See "Appendix A – Crescent Academy – State Aid Payments" for the Academy's State School Aid per pupil allowance for the 2004–05 through 2007–08 fiscal years.

Pursuant to the State School Aid Act, a public school academy's annual entitlement to State School Aid for the 2008–09 fiscal year shall be paid in installments equal to one-eleventh of such entitlement on the 20<sup>th</sup> (or if the 20<sup>th</sup> falls on a Saturday, Sunday or legal holiday, on the immediately succeeding regular business day) in each of the months of October through August, subject to certain statutory adjustments.

### ***Pupil Membership Counts***

State School Aid is paid to a public school academy on a per pupil basis. The State School Aid Act currently provides that pupil membership is based on a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education. The State School Aid Act contains alternative methodologies for determining pupil counts for public school academies which have been in existence less than two years or which have suspended operations for one or more semesters. For school districts, including public school academies, which have pupils enrolled in a grade level that was not offered the prior year, pupil membership counts for that grade level are based on an average of the current September count and the following February supplemental count, all as determined by the Michigan Department of Education. Due to grade growth, the Academy enrollment is modified downward from actual September count due to the blended count process, but none of the alternative methodologies for determining pupil counts currently apply to the Academy. There is nothing in the Academy's Charter that limits class size or enrollment. The Academy is required by its Charter to annually adopt maximum enrollment figures prior to its application and enrollment period, which is usually in April of each year. In March, 2008, the Academy Board established the enrollment limit for the 2008–2009 school year at 340 students.

### ***Legislative Changes in the State School Aid Act***

The State School Aid Act may be modified by the Michigan Legislature, subject only to certain State constitutional parameters. The amount, timing and methodology for calculation of State School Aid have changed significantly in recent years. State School Aid payments are subject to annual appropriation and future modification by the Michigan Legislature, subject only to such constitutional parameters. See "Risk Factors – Delay in, Reduction, or Termination of State School Aid" and "Risk Factors – Changes in Law" herein.

### ***Changes in State School Aid Distributions***

Scheduled State Aid amounts are subject to reduction, and have been reduced, in the event there are insufficient funds to support an enacted school aid fund budget. Under the State's Constitution and State law, the State is required to maintain a balanced budget for any fiscal year. Due to insufficient funds to support the enacted State school aid budget, in fiscal year 2002–03, the final six State Aid payments to school districts were reduced on a

pro rata basis in an amount equal to 3.8% of the districts' unprotected State Aid, ranging from \$0 to \$137 per pupil; and in fiscal year 2003-04, adjustments were made to the State school aid budget, including a six-month delay in the previously scheduled reduction of the State income tax rate from 4.0% to 3.9%. Under the terms of the adjustments, State Aid to school districts was reduced in fiscal year 2003-04 by approximately \$75 per pupil.

There is past precedent for (i) the State Treasurer giving advance notice to the State Budget Director if estimated school aid fund revenues and other dedicated funding would be insufficient to support appropriated State Aid amounts for a fiscal year, and (ii) the State Budget Director, pursuant to Section 11(3) of the State School Aid Act, notifying the State Senate Majority Leader and the Speaker of the State House of Representatives that beginning on a specified date, a specified prorated reduction in a fiscal year would be applied to all spending categories except those specifically protected by law, unless legislation were enacted to reduce that fiscal year's school aid appropriations so as not to exceed the revised school aid revenue projections.

Section 20 of Article 5 of the State Constitution requires that the Governor, with the approval of the appropriating committees of the State House of Representatives and the State Senate, reduce expenditures authorized by appropriations whenever it appears that actual revenues for a fiscal period will fall below the revenue estimates on which appropriations for that period were based. On March 22, 2007, the Governor issued Executive Order 2007-3 and ordered budget cuts of approximately \$274,245,000 in the general fund and \$70,383,100 in special purpose funds in anticipation of actual revenue falling below revenue estimates in order to balance the fiscal year 2006-07 budget. The budget cuts did not include reductions in the State's School Aid Fund. Under State law, the Senate and House Appropriations Committees had 10 days to either approve or disapprove by a majority vote the reductions contained in that order. Both the Senate and House Appropriations Committees approved the reductions in Executive Order 2007-3. On March 29, 2007, the Governor also issued 10 directives to State departments and agencies to take new steps to curtail spending. On October 1, 2007, the Legislature approved a one month continuation in budget, and on October 31, 2007, the Legislature adopted the appropriation bills for the 2007-08 fiscal year.

On November 8, 2007 the Governor signed Act No. 137, Public Acts of Michigan, 2007, which increased the minimum per pupil foundation allowance to \$7,204 for fiscal year 2007-2008; up to \$96 per pupil will be paid to school districts with a fiscal year 2006-2007 per pupil foundation grant that was at least equal to \$7,108, but less than \$8,385. For information on the Academy's foundation allowance, see "Appendix A – Crescent Academy".

### **The Reserve Fund**

The Reserve Fund (the "Reserve Fund") will be established pursuant to the Indenture. The Issuer is expected to deposit in the Reserve Fund monies in an amount equal to the Reserve Fund Requirement derived from a grant awarded by the United States Department of Education through its Credit Enhancement for Charter Schools Program (the "Grant") in an amount equal to the Reserve Fund Requirement.

The "Reserve Fund Requirement" means an amount equal to the lesser of (a) the maximum annual principal and interest requirements on the Bonds, (b) 125% of the average annual principal and interest requirements on the Bonds, or (c) 10% of the original principal amount of the Bonds (net of original issue discount). Amounts in the Reserve Fund provide additional security for the Bonds. Monies held in the Reserve Fund in excess of the Reserve Fund Requirement (calculated including monies on deposit in the Academy Funded Reserve Account) shall be transferred by the Trustee to the Issuer, free and clear of the lien of the Indenture.

If at any time there are not sufficient funds in the Bond Fund established under the Indenture for the payment of principal of, premium, if any, and interest on the Bonds as the same become due, the Trustee shall withdraw from the Reserve Fund and deposit in the Bond Fund sufficient moneys which, when added to the moneys on deposit in the Bond Fund, will be sufficient to meet the payment of principal, premium, if any, and interest then due on the Bonds.

## **The Mortgage and the Environmental Report**

As additional security for the Bonds, the Academy will deliver, and the Trustee will receive, a first mortgage lien, subject to permitted encumbrances, on the Facility to secure the payment of the Academy's Bond Payments due under the Financing Agreement.

Under the State School Aid Act, property of a public school academy that was acquired substantially with funds appropriated under such Act is required to be transferred to the State by the public school academy in certain events, including revocation of its charter or if its charter has not been reissued by the authorizing body. In such event, the State School Aid Act authorizes the State Treasurer to sell such property and requires the State Treasurer to apply the net proceeds from such sale first to pay any debt of the public school academy secured by such property, and second, to deposit any remaining amount into the State School Aid fund.

There are potential risks relating to environmental liability associated with ownership of or secured lending with respect to real property. The Academy has obtained a Phase I Environmental Report regarding the Facility. See "RISK FACTORS – Environmental Issues Regarding the Facility" for a description of the Phase I Environmental Report.

## **Certain Financial Information Concerning the State**

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report ("CAFR") prepared by the State's Office of the State Budget are available from the Office of the State Budget website at [www.michigan.gov/budget](http://www.michigan.gov/budget). The State has agreed to file its CAFR with the Nationally Recognized Municipal Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually.

## **Limited Obligation**

None of the Issuer, the State of Michigan or Bay Mills Community College shall be obligated to pay the Bonds or the interest thereon or other costs incident thereto, except that the Issuer shall be obligated to make such payments solely from the security for the Bonds described herein. Neither the faith and credit of the Issuer or of Bay Mills Community College nor the taxing power of the State of Michigan is pledged to the payment of the principal of, premium, if any, or the interest on, the Bonds. The Bonds are not general obligations of the Issuer, but are limited obligations payable solely from certain amounts payable by the Academy under the Financing Agreement and other moneys pledged therefor under the Indenture. The Issuer has no taxing power.

## **CHARTER SCHOOLS IN MICHIGAN**

### **General**

In December of 1993, Michigan became the ninth state to pass charter school legislation. The current charter school statute is codified in the Revised School Code, § 380.501 – 380.507 of the Michigan Compiled Laws (M.C.L.). In Michigan, charter schools are known as public school academies. A public school academy is a state-supported public school that is funded through the State School Aid Act (1979 PA 94, as amended, M.C.L., 388.1601, *et. seq.*) and receives funding through a per pupil base allowance. See "Sources of Payment and Security for the Bonds – State School Aid Source" herein.

According to the Michigan Department of Education, during the 2006-07 fiscal year, there were 230 public school academies serving over 125,000 students. Approximately 66% of charter students are minorities and 51% of charter students qualify for free- or reduced-price lunch. About 9% of charter school students have special needs.

### **Michigan Supreme Court Upholds Law**

The Michigan Supreme Court ruled 5-1 on July 30, 1997 that Michigan's original public school academy law was constitutional. The Court ruled that "1993 PA 362 does not violate Constitution 1963, article 8 section 2 or



section 3. Further, . . . the 1994 PA 416 repealer is valid and enforceable, requiring remand to the trial court for vacation of the injunction and entry of an order to the Department of Treasury to disburse funds to the public school academies operating under 1993 PA 362.” *Council of Organizations and Others for Educ. about Parochiaid, Inc. v. Michigan Dept. of Educ. et. al.*, 455 Mich. 557, 556 N.W.2d 208 (Mich. 1997).

### **Michigan School Finance Reform**

On June 15, 1994, the electors of the State of Michigan approved a ballot proposition (“Proposal A”) to amend the State Constitution of 1963, in part, to increase the state sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in Michigan in order to reduce reliance on local property taxes for school operating purposes and to equalize the per pupil finance resource disparities among all school districts. The State aid package passed by the Legislature as part of the school finance reform legislation instituted a per pupil foundation guarantee beginning in fiscal year 1994/1995. The Legislature has historically appropriated funds to establish a foundation allowance within a range based in part on historical revenue. The foundation allowance may be adjusted by an index based upon the change in revenues to the State school aid fund and change in the total number of pupils statewide and the disparity between the high and low per pupil guarantee is reduced. The source of revenues for the state’s contribution to the foundation allowance is derived from a mix of taxing sources, including but not limited to, a statewide property tax of six mills on all property (homestead and non-homestead), a state sales and use tax, a real estate transfer tax and a cigarette tax.

State School Aid appropriations and the payment schedule for State School Aid can be changed by the Legislature at any time. See “Sources of Payment and Security for these Bonds – State School Aid Revenues” and “Risk Factors” herein.

### **LIMITATION ON ADDITIONAL BONDS AND ADDITIONAL INDEBTEDNESS**

#### **Additional Bonds**

The Issuer reserves the right to issue Additional Bonds, upon the request of the Academy with such approvals as required by the Enabling Legislation, without limit in one or more series for the acquisition, construction and/or renovation of facilities to be used by the Academy and for such other purposes set forth in, and subject to the requirements, of the Financing Agreement. Additional Bonds shall be of the same priority as the Bonds and all bonds issued under the Indenture shall be equally and ratably payable from and secured by the Security, but the Additional Bonds shall bear such dates and interest rates, have maturity and redemption dates and amounts, have optional and mandatory redemption provisions, and be issued at such prices as shall be specified in the supplemental indenture thereto. No Additional Bonds shall be issued unless the following terms and conditions have been met:

- a. the Trustee has received a copy, duly certified by the Issuer, of the resolution adopted by the Issuer authorizing the issuance of such Additional Bonds and the execution and delivery of a supplemental indenture, supplementing and amending this Indenture, which supplemental indenture shall not require the approval of the Registered Owners of the Bonds Outstanding, providing the date, interest rates and maturities of such Additional Bonds, options and requirements for redemption prior to maturity with respect to such Additional Bonds, deposit of proceeds to the various funds and accounts, including the Reserve Fund, and such other terms as may be required by reason of the foregoing and which adopts the applicable provisions of this Indenture.
- b. the Trustee and the Issuer have received an opinion of counsel to the Academy in form and substance acceptable to the Trustee, the Issuer, Bond Counsel and the Attorney General of the State of Michigan.
- c. the Trustee has received a certificate of an Authorized Representative of the Academy to the effect that the Academy is not in default under the Financing Agreement, is not aware of any Events of

Default under the Indenture and that such indebtedness may be issued under the Financing Agreement.

- d. the Trustee and the Issuer have received an opinion of nationally recognized municipal bond counsel to the effect that (i) the issuance of such Additional Bonds will not affect adversely the exclusion from gross income for federal income tax purposes of interest on any Outstanding Bonds, and (ii) the Additional Bonds to be delivered will be valid and legal limited obligations of the Issuer in accordance with their terms and will be secured hereunder equally and on a parity with all other Bonds at the time Outstanding hereunder as to the assignment and pledge of the Security to the payment of the Bonds;
- e. the Trustee has received original executed counterparts of the agreement supplementing and amending the Mortgage (if necessary), an agreement supplementing and amending the State Aid Agreement (if necessary), and the supplemental indenture supplementing and amending the Indenture;
- f. the Trustee has received a request and authorization to the Trustee on behalf of the Issuer and signed by the Authorized Representative of the Issuer to authenticate and deliver such Additional Bonds to the purchasers therein identified, upon payment to the Trustee, but for the account of the Issuer, of a sum specified in such request and authorization, plus accrued interest thereon, if any, to the date of delivery;
- g. the Trustee will receive from the proceeds of the Additional Bonds or otherwise on the date of delivery of the Additional Bonds an amount equal to the additional Reserve Fund Requirement for deposit into the Reserve Fund;
- h. the Trustee and the Issuer have received an executed opinion of nationally recognized municipal bond counsel to the effect that (i) the Additional Bonds have been duly authorized, executed and delivered and constitute the binding limited obligations of the Issuer, enforceable in accordance with their terms, subject to normal bankruptcy exceptions, and (ii) the interest on such Additional Bonds is excluded from gross income for federal income tax purposes (unless it is intended that such interest be taxable); and
- i. the Academy provides to the Trustee a certificate of an Authorized Representative of the Academy, to the effect that:
  - (1) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the aggregate annual debt service in such fiscal year on the Bonds and any Additional Bonds proposed to be issued is not less than 1.25:1.0;
  - (2) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the maximum aggregate annual debt service on the Bonds and any Additional Bonds proposed to be issued is not less than 1.25:1.0;
  - (3) Pursuant to (1) and (2) above, for purposes of computing future projections of State School Aid, such certificate shall use the expected total amount of State School Aid to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current fiscal year unless the Academy has received the approval of its Authorizing Body for a grade or facility expansion, in which case, the ratios may be calculated using the number of students certified as of the September count date of the current fiscal year plus the estimated enrollment for any approved grade or facility expansion and



- (4) The Financing Agreement and the Municipal Obligation have been amended (if required by the documents) to provide for Academy debt service payments on the Additional Bonds.

#### **Other Additional Indebtedness**

The Academy in the Financing Agreement will covenant that without the prior written consent of the Trustee at the direction of the holders of 51% of the Outstanding Bonds, it will not incur indebtedness for borrowed money, guarantee the obligations of others or incur other pecuniary obligations, except:

- (a) obligations incurred in the ordinary course of business;
- (b) state aid notes (including state aid note lines of credit) issued pursuant to Act No. 451, Public Acts of Michigan, 1976, as amended;
- (c) other indebtedness incurred or guaranteed by the Academy in accordance with applicable law related to capital acquisitions provided that the aggregate maximum annual debt service on such indebtedness, in any fiscal year, together with the applicable debt service on the Bonds for such year, shall not exceed 20% of the amount of the State School Aid projected to be payable to the Academy by the State in such fiscal year; for purposes of computing future projections of State School Aid, the amount of State School Aid to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current year shall be used; and
- (d) Notwithstanding the foregoing, the Academy covenants and agrees that the amount of State School Aid to be received by the Academy shall be at least the total of the Bond Payments, Additional Payments and all payments on such other obligations to which State School Aid has been pledged due in such fiscal year.

#### **RISK FACTORS**

The purchase of the Bonds involves certain risks. This Limited Offering Memorandum contains summaries of pertinent portions of the Bonds, the Indenture, the Financing Agreement and the Settlement Agreement. Such summaries and references are qualified in their entirety by reference to the full text of such documents. Prospective investors are encouraged to obtain copies of such documents from the Placement Agent and read such documents prior to purchasing any of the Bonds. The following discussion of some of the risk factors associated with the Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude. This Limited Offering Memorandum does not describe all of the risks of an investment in the Bonds and the Placement Agent disclaims any responsibility to advise prospective investors of such risks as they exist at the date of this Limited Offering Memorandum or as they change from time to time. Prospective investors should consult their own legal and tax advisors as to the risks entailed by an investment in the Bonds and the suitability of investing in the Bonds in light of their particular circumstances. Prospective investors should be able to bear the risk relating to an investment in the Bonds and should carefully consider, among other factors, the matters described below.

#### **Speculative Investment; Absence of Rating**

Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. The Bonds are not rated by a nationally recognized rating agency. Typically, unrated bonds lack liquidity in the secondary market. Any investor who, because of financial condition, is unable to bear the loss of an investment in the Bonds, or who, because of investment policies or otherwise, does not desire to assume, or have the ability to bear, the risks inherent with an investment in the Bonds, should not purchase the Bonds. See also "RISK FACTORS – Sufficiency of Revenues," below.

The Bonds may exhibit price fluctuations due to the changes in interest rate or bond yield levels. As a result, the value of the Bonds may fluctuate significantly in the short-term. Further, such securities have a less

liquid resale market. As a result, potential investors may have difficulty selling or disposing of the Bonds quickly in certain markets or market conditions.

### **Possible Litigation**

It is expected that the Institutional Investors will pursue remedies against third parties (each a "Third-Party Litigant") to compensate the Institutional Investors for losses relating to the Prior Obligations and the Transaction. There can be no assurance that such third parties will not assert claims against the Academy and join it as a party or file suit against the Academy directly.

IN THE EVENT THAT A THIRD-PARTY LITIGANT JOINS THE ACADEMY AS A PARTY OR INSTITUTES LITIGATION AGAINST THE ACADEMY, AN ADVERSE DECISION COULD HAVE AN ADVERSE IMPACT ON THE FINANCIAL POSITION OF THE ACADEMY. See "THE PLAN OF REFUNDING AND SETTLEMENT AGREEMENT," "LITIGATION" and "Appendix E – Copy of Settlement Tender and Release," herein.

### **Forensic Audits**

The Academy was required, pursuant to its Correction Plan, to cooperate with a forensic auditor hired by its Authorizing Body. To date, the Authorizing Body has not shared the results of such audit with the Academy. The Academy has also recently replaced its auditing firm. INASMUCH AS THE RESULTS OF SUCH AUDIT HAVE NOT BEEN SHARED WITH THE ACADEMY, THERE CAN BE NO ASSURANCE THAT THE ACADEMY'S PRIOR YEAR FINANCIAL STATEMENTS WILL NOT REQUIRE RESTATEMENT OF CERTAIN ITEMS AND THE IMPACT OF SUCH RESTATEMENT, IF ANY, ON THE ACADEMY'S ABILITY TO CONTINUE OPERATIONS OR TO PAY THE ACADEMY PAYMENTS CANNOT BE DETERMINED.

### **Public School Academies Generally**

The operations of the Academy relate primarily to the ownership and operation of a public school academy located in Southfield, Michigan. Such operations are dependent on sufficient demand for such facilities, adequate revenues from enrollment at the facilities and control of expenses. The operation of a public school academy is highly regulated through the Charter, the Authorizing Body, and the Michigan Department of Education. A public school academy may not charge tuition to a student attending the academy. The failure of the Academy to meet the requirements of the regulations, termination, revocation or non-renewal of the Academy's Charter by the Bay Mills Community College Board of Regents, or its designee, or the inability to secure a charter from another authorizing body would have a material adverse effect on the ability of the Academy to make Academy Payments. See "Risk Factors – Revocation or Nonrenewal of Charter."

### **Sufficiency of Revenues**

The Bonds are secured by and payable solely from revenues of the Academy pledged under the terms and conditions of the Indenture and as otherwise described therein. Based on present circumstances (i.e., its charter contract and operating history), the Academy believes it will generate sufficient revenues to meet its obligations under the Indenture. However, the Academy's Charter may be terminated or not renewed, or the basis of the assumptions utilized by the Academy to formulate this belief may otherwise change and no representation or assurance can be made that the Academy will continue to generate sufficient revenues to meet its obligations.

### **No Taxing Authority**

The Academy is a Michigan public school academy and has no taxing power. The Academy does not possess the ability to assess ad valorem taxes now or in the future. As such, the Academy is completely dependent upon State School Aid revenues to pay the Academy Payments. Any event that would delay, reduce or eliminate State School Aid monies from the State would have a material adverse effect on the ability of the Academy to make Academy Payments coming due thereafter. See "Risk Factors" section, including "Revocation or Nonrenewal of Charter" and "Delay in, Reduction, or Termination of State School Aid" herein.

## **Dependence on State School Aid Payments; State School Aid Payments Subject to Annual Appropriation**

The Academy may not charge tuition and has no taxing authority. The primary source of revenue received by the Academy is the per pupil allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature. The Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, to enable the Academy to pay debt service on the Bonds and to meet its general operating expenses. Similarly, the State allocation per student could be reduced or not keep pace with expenses such that the aggregate State School Aid Payments to the Academy is inadequate to allow the Academy to pay its operating expenses and debt service on the Bonds. No liability shall accrue to the State in such event, and the State will not be obligated or liable for any future payments or any damages in such event. In the event the State were to withhold the payment of monies from the Academy for any reason, even a reason that is ultimately determined to be invalid or unlawful, it is likely the Academy would be forced to cease operations.

## **Delay in, Reduction, or Termination of State School Aid**

Any event that would cause a delay, reduction or elimination of State School Aid payments would have a material adverse effect on the ability of the Academy to pay the Academy Payments. The Michigan legislature is required to balance the budget and if it does not, the proration provisions of the School Aid Act become effective. The proration provisions essentially roll back the per pupil allowance. Section 11 of the School Aid Act states that if appropriations exceed the amount available for expenditure from the School Aid Fund in any given year, then the State must prorate certain payments to school districts (including public school academies) in order to eliminate the shortfall. In previous fiscal years, the State has applied across-the-board cuts to eliminate shortfalls which have resulted in a reduction of the Academy's per pupil foundation allowance. No representation can be made that future fiscal periods will not be subject to similar budget shortfalls. Any reduction in State School Aid payments could have a material adverse effect on the ability of the Academy to make Academy Payments coming due thereafter.

## **Changes in Law**

The School Aid Act is subject to modification by the Michigan Legislature, subject only to certain constitutional parameters. The amount, timing and methodology for calculation of State School Aid has changed significantly in recent years, and is subject to future legislative changes.

Further, the Michigan Legislature has amended the charter school laws since they were first enacted in 1993. Future amendments to the law may adversely affect the Academy, for example, by reducing the maximum amount payable by the State for students enrolled by the Academy, by limiting the amount of such State School Aid payments that may be pledged to obligations such as the Bonds, by withholding a percentage of the State School Aid payments if a charter school is deemed not to be in compliance with its charter or state and federal laws, by decreasing the maximum length of a charter contract's term, by requiring a state body to make an assessment of each school's effectiveness every year, by limiting the number of students for which State funds are available, by mandating new facilities or programs which may cost more than has been projected, by revising the relative responsibilities between school districts and the State for financing schools (including charter schools) or by eliminating the authority for charter schools.

## **Limitation of Availability of State School Aid**

No more than twenty percent (20%) of the State School Aid received by the Academy from the State in each fiscal year may be legally available to pay the Academy Payments and other long-term obligations of the Academy.

## **Environmental Issues Regarding the Facility**

The Facility is subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability to the owner of the Facility for

investigating and remediating adverse environmental conditions on or relating to the Facility, whether arising from preexisting conditions or conditions arising as a result of the activities conducted in connection with the ownership and operation of the Facility. Costs incurred by the Academy with respect to environmental liability could adversely impact its financial condition and its ability to operate its school facilities.

On June 30, 2008, ATC Associates Inc. ("ATC") performed a Phase I Environmental Site Assessment (the "ESA") following the guidance of the ASTM E 1527-00 Phase I Standard Practice for Environmental Site Assessments with respect to the Facility. In the professional opinion of ATC, all appropriate inquiry has been made into the previous ownership and uses of the subject property consistent with good commercial and customary practice in an effort to minimize liability, and no evidence or indication of recognized environmental conditions (RECs) has been revealed. No further investigation is deemed necessary by ATC at this time.

### **Economic and Other Factors**

Future economic and other factors may adversely affect the Academy's revenues and expenses and, consequently, the Academy's ability to pay the Academy Payments. Among the factors that could have such adverse effects are: decreases in the number of students seeking to attend the Academy at optimum levels for each grade level; the ability of the Academy to provide the education desired and accepted by the population served; economic developments in the affected service area; diminution of the Academy's reputation in its field; competition from other educational institutions, including other charter schools, private schools and public schools; lessened ability of the Academy to attract and retain qualified teachers and staff at salaries that permit payment of debt service and expenses; increased costs associated with technological advances; changes in government regulation of the education industry or in the Michigan charter school statutes; future claims for accidents at the Academy's sites and the extent of insurance coverage for such claims; decrease in per-student funding amounts by the State; and the occurrence of natural disasters such as floods.

### **Revocation or Non-Renewal of Charter**

The Academy operates under a charter contract with BMCC. The Charter provides the basis for the Academy to receive State School Aid payments. The Academy's Charter is effective through June 30, 2012. Decisions to terminate the Charter at the end of each annual period are at the sole discretion of the BMCC Board and the BMCC Board could choose to terminate the Academy's Charter at any time for any reason. Additionally, BMCC may unilaterally terminate the Academy's Charter at any time if the Academy is not in substantial compliance with the charter or any provision of applicable law or for certain other delineated reasons as provided in the Charter. See "Appendix A – Crescent Academy – The Charter Agreement." The BMCC Board issued a Notice to Revoke on April 17, 2007, which alleged various irregularities with the Transaction, and required that the Academy unwind the Transaction or risk termination of its Charter. The Academy executed a Plan of Correction, dated August 8, 2007, in response to the Notice of Intent which sets forth numerous actions to be taken by the Academy to avoid termination of its Charter, which includes formulating and implementing a plan to "unwind" the Transaction. If the Charter School's Office Director, in his discretion, determines that the Academy Board has not complied with part or all of the Plan of Correction, the Charter School's Office Director can initiate a revocation hearing to revoke the Charter. NOTHING IN THE PLAN OF CORRECTION IN ANY WAY LIMITS OR RESTRICTS THE BMCC BOARD'S RIGHT TO OTHERWISE TERMINATE THE CHARTER.

The BMCC Board may also revoke or terminate the Charter pursuant to its terms based on grounds specified in the Charter. See "Appendix A – Crescent Academy – The Charter Agreement." The decision to terminate or to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any State agency. In the event that the Academy's Charter is revoked or terminated, the ability of the Academy to pay the Academy Payments would be adversely affected and the Academy could be forced to cease operations.

IN THE EVENT THAT THE BMCC BOARD WERE TO REVOKE, TERMINATE, SUSPEND OR NOT RENEW THE ACADEMY'S CHARTER, OR IF THE ACADEMY WERE UNABLE TO SECURE ANOTHER AUTHORIZING BODY, THE ABILITY OF THE ACADEMY TO MAKE ACADEMY PAYMENTS UNDER THE FINANCING AGREEMENT AND THE MUNICIPAL OBLIGATION COMING DUE THEREAFTER WOULD BE MATERIALLY ADVERSELY AFFECTED.

Pursuant to Section 18b of the State School Aid Act, in the event that the Academy (i) is ineligible to receive funding under the State School Aid Act for 18 consecutive months; (ii) the Academy's charter is revoked; or (iii) the Academy's charter is not reissued by the Authorizing Body, then property, including title to such property, acquired substantially with funds received from the State pursuant to the State School Aid Act is required to be transferred to the State. The State Treasurer, or his or her designee, is authorized to dispose of property transferred to the State pursuant to Section 18b of the State School Aid Act. Except as otherwise provided in Section 18b of the State School Aid Act, the State Treasurer shall deposit in the state school aid fund any money included in that property and the net proceeds from the sale of the property or interests in the property, after payment by the State Treasurer of a public school academy debt secured by the property or interest in the property.

The BMCC Board may elect to follow the foregoing revocation procedures or it may elect not to follow such revocation procedures.

See "Recent Actions by Charter Authorizers" herein.

### **Recent Actions by Charter Authorizers**

As of September, 2007 there were 230 public school academies operating in 318 school buildings in Michigan.<sup>[1]</sup> These public school academies are authorized as follows: 147 by public universities, 30 by intermediate school districts, 39 by community colleges and 14 by local education agencies. These public school academies serve approximately 125,000 students, or roughly 7.25% of Michigan's public school students. Since the inception of the State's public school academy program and as of September 21, 2007, 29 public school academies have been closed (six have had their charters terminated or revoked; 18 have had their charters not renewed and four have dissolved).<sup>[2]</sup> None of the closed schools were authorized by Bay Mills Community College Board of Regents.<sup>[3]</sup>

As more fully set forth above under "THE PLAN OF REFUNDING AND SETTLEMENT AGREEMENT – The Settlement, Tender and Release Agreement," the Academy's Authorizing Body issued the Notice of Intent to Revoke on April 17, 2007, and the Academy responded to the Notice of Intent to Revoke with the Correction Plan in an effort to prevent termination of its Charter.

In February, 2008, Grand Valley State University ("GVSU") announced that it would not renew the charter of two of its sponsored academies when they expired in summer 2008. GVSU cited problems with student achievement at both schools. GVSU also cited enrollment problems at one of the schools. Both academies are seeking new sponsors.<sup>[3]</sup> One of the schools had operated for twelve years, the other for ten. As of September, 2007, GVSU had also declined to renew the charters of three other public school academies.<sup>[4]</sup>

In addition, further revocation proceedings may be pending with respect to Michigan public school academies.

[1] Source: [http://www.michigan.gov/documents/Counts\\_55505\\_7.pdf](http://www.michigan.gov/documents/Counts_55505_7.pdf)

[2] Source: [http://www.michigan.gov/documents/Closed\\_55511\\_7.pdf](http://www.michigan.gov/documents/Closed_55511_7.pdf)

[3] Sources: "GVSU Charter School Actions," at [www.gvsu.edu](http://www.gvsu.edu); "School Needs Sponsor: Advantage Academy losing students, authorization," *Kalamazoo Gazette*, February 6, 2008; "Tri-Valley looks to MCC for Charter," *Muskegon Chronicle*, February 28, 2008.

[4] Source: [http://www.michigan.gov/documents/Closed\\_55511\\_7.pdf](http://www.michigan.gov/documents/Closed_55511_7.pdf)

### **Limited Operating History; Reliance on Projections**

The ability of the Academy to pay the Academy Payments when due is dependent on State School Aid payments to be received by the Academy as payment for educating students. The Academy has conducted operations as a charter school since 2004. The projections of revenues and expenses contained in "Appendix A – Crescent Academy – Historical and Projected Revenue and Expenses," herein were prepared by the Academy and have not been independently reviewed or verified by any other party. In particular, the Placement Agent has not



independently verified such projections, and makes no representations nor gives any assurances that such projections, nor the assumptions underlying them, are complete or correct. Further, the projections relate only to the fiscal years of the Academy ending June 30, 2009 through 2013, and consequently do not cover the entire period that the Bonds will be outstanding.

The projections are derived from the actual operation of the Academy and from the Academy's assumptions about future student enrollment and expenses. There can be no assurance that the actual enrollment revenues and expenses for the Academy will be consistent with the assumptions underlying the projections contained herein. Moreover, no guarantee can be made that the projections of revenues and expenses contained herein will correspond with the results actually achieved in the future because there is no assurance that actual events will correspond with the assumptions made by the Academy. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of insufficient enrollment, reduced State School Aid payments, or otherwise), employee relations, changes in taxes, changes in applicable government regulation, changes in demographic trends, changes in elementary education competition and changes in local or general economic conditions. Refer to "Appendix B – Forecasted Financial Statements – June 30, 2009 Through 2013," to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE MANAGEMENT OF THE ACADEMY. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE SCHOOL AID PAYMENTS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN EDUCATION COMPETITION AND LOCAL OR GENERAL ECONOMIC CONDITIONS.

### **Existing and Prospective Operations Generally**

The revenues and expenses associated with the existing and prospective operations of the Academy will be affected by future events and conditions relating generally to, among other things, demand in the Academy's service area for educational services, the ability of the Academy to continue to provide the kinds of facilities and educational services desired or required by the student population, economic developments in the affected service area, competition from existing or future facilities and providers, the ability of the Academy to maintain high enrollment levels and the ability to continue to receive State School Aid sufficient for the payment of all related costs of operation.

No assurances can be given that the Academy will continue to have funds for the payment of amounts due under the Indenture, including the Academy Payments. Accordingly, the likelihood that there will be sufficient funds to pay the principal of, premium, if any, and interest on the Bonds is dependent upon certain factors which include, but are not limited to, (a) the continuing need of the Academy for the Facility, (b) the ability of the Academy to obtain funds (including State School Aid) to pay obligations associated with the Bonds, (c) the demographic conditions within the service area of the Academy, and (d) the value of the Facility and other assets of the Academy upon foreclosure sale under the Mortgage instituted by the Trustee pursuant to the Indenture and Mortgage and upon exercise of the remedies available under the Indenture.

### **Competition for Students**

The Academy competes for students with other public school academies, traditional public school districts, and private schools. There can be no assurance that the Academy will attract and retain the number of students that are needed to produce the pledged revenues that are necessary to pay the Academy Payments. Several public school academies, public schools and private schools are located in close proximity to the Academy. Refer to "Appendix A – Crescent Academy – Service Area and Competing Schools," for information regarding other schools in the Academy's service area and schools that compete with the Academy.

## **Factors Associated with Education**

There are a number of factors affecting elementary and secondary school education in general, including the Academy, which could have an adverse effect on the Academy's financial position and its ability to make Academy Payments required under the Indenture. These factors include, but are not limited to, increasing costs of compliance with federal or state regulatory laws or regulations, including, without limitation, the No Child Left Behind Act of 2001; laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any unionization of the Academy's work force with consequent impact on wage scales and operating costs of the Academy; the ability to attract a sufficient number of students; changes in existing statutes pertaining to the powers of the Academy and legislation or regulations which may affect program funding. The Academy cannot assess or predict the ultimate effect of these factors on its operations or its ability to make the Academy Payments.

## **Compliance with the No Child Left Behind Act of 2001**

In accordance with the Federal No Child Left Behind Act of 2001 ("NCLB"), the Michigan Department of Education identified public schools in the State of Michigan not making Adequate Yearly Progress ("AYP") in mathematics and/or English language arts. For information regarding the Academy's AYP status and its State School Improvement phase designation, see "Appendix A – Crescent Academy – Academic Performance."

The No Child Left Behind Act strengthens requirements for state assessments, accountability systems, and support for school improvement. The law also establishes minimum qualifications for teachers and paraprofessionals. Failure of the Academy to meet the requirements of NCLB may have a material adverse effect on the Academy and its ability to make Academy Payments.

## **Performance by Management Company**

The Academy has entered into a services agreement with CS Partners, LLC and CSP Management (collectively "CS Partners"), for certain business and educational services (the "Management Agreement"). Founded in 2004, CS currently provides services to eight (8) public school academies in Michigan. No assurances can be made that CS Partners will continue to operate school facilities or remain financially able to perform its obligations under the Management Agreement. If CS Partners fails to perform its management duties properly, it could adversely affect the Academy's ability to attract students and could materially adversely affect its ability to generate sufficient revenues to make the Academy Payments. If CS Partners ceases to serve in its capacity, the Academy's ability to continue its operations would in large part be dependent upon the Academy's ability to operate, manage and maintain the Facility itself or to contract with another company competent to operate, manage, and maintain the Facility. Its failure to do so would materially adversely affect the Academy's ability to make the Academy Payments. The Management Agreement is on file with the Trustee and is currently set to expire June 30, 2012. See "Appendix A – Crescent Academy – Educational Service Provider."

## **Future Need for the Facility**

Changes of economic, social or other conditions could affect demographics of the Academy and reduce the Academy's ability, need or willingness to utilize the Facility. The Academy is not legally prohibited from constructing additional facilities at any time. Changes in future needs may have an adverse effect upon the willingness and ability of the Academy to budget money to continue the Facility or make Academy Payments under the Indenture.

## **Collateral Insufficiency**

In the event of a default under the Indenture or the Financing Agreement, the indebtedness thereunder may be accelerated and the Mortgage foreclosed by the Trustee.

A potential purchaser of the Bonds should not assume that it will be possible to obtain proceeds from the foreclosure of the Mortgage and the sale of the Facility or from the sale of personal property secured by the



Mortgage after a foreclosure of the Mortgage, for an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon. Such risks include environmental matters, fire and other casualty, condemnation, increased taxes, changes in demand for the facilities, decline in local and general economic conditions and changing governmental regulations. If the Facility is sold pursuant to a foreclosure sale under the Mortgage (and there is no assurance that there would be any purchaser upon a foreclosure sale) for an amount less than the aggregate principal amount of and accrued interest on the Bonds, such partial payment may be the only payment to the Bondholders; upon such partial payment, no holder of any Bond shall have any further claim for payment from the Trustee, other than claims arising from the Academy's general obligation pledge.

#### **Inability to Liquidate or Delay in Liquidating the Facility**

An event of default that has occurred and is continuing gives the Trustee the right of possession of, and the right to sell, the Facility pursuant to a foreclosure sale under the Mortgage. The Facility is intended to be used for the public school purposes of the Academy. Because of such use, a potential purchaser of the Bonds should not anticipate that a sale of the Facility could be accomplished rapidly, or at all. Any sale of the Facility would require compliance with the laws of the State of Michigan. Such compliance may be difficult, time-consuming and/or expensive. Any delays in the ability of the Trustee to foreclose on the Mortgage would result in delays in the payment of the Bonds.

The Facility was specifically renovated for use as a school facility and may not be readily adaptable to other uses. As a result, in the event of a sale of the Facility, the number of uses that could be made of the property, and the number of entities that would be interested in purchasing the Facility, could be limited, and the sale price would be thus affected. The location of the Facility may also limit the number of potential purchasers. The ability of the Trustee to sell the Facility to third parties, thereby liquidating the investment, would be limited as a result of the nature of the Facility. For these reasons no assurance can be made that the amount realized upon any sale of the Facility will be fully sufficient to pay and discharge the Bonds. In particular, there can be no representation that the amount of refunding proceeds allocated to the Facility constitutes a realizable amount upon any forced sale thereof. In the event the Trustee takes possession of the Facility, the Facility may be subject to real estate taxation.

#### **Damage or Destruction of the Facility**

The Indenture requires that the Facility be insured against certain risks in certain amounts. There can be no assurance that the amount of insurance required to be obtained will be adequate or that the cause of any damage or destruction will be as a result of a risk. Further, there can be no assurance of the creditworthiness of the insurance companies from which the Academy will obtain the required insurance policies.

#### **Value of Property May Fluctuate**

The value of the Facility at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the transaction. Real property values can fluctuate substantially depending in large part on the state of the economy. There is nothing associated with the Academy's property which would suggest that its value would remain stable or would increase if the general values of property in the community were to decline. Furthermore, as a limited use building, any remedy exercised by the Trustee under the Mortgage could be expensive and time consuming, see "Inability to Liquidate or Delay in Liquidating the Facility" herein.

## **Key Management**

The creation of, and the philosophy of teaching in, public school academies such as the Academy may reflect the vision and commitment of a few key persons who are on the Board of Trustees and/or who make up the upper management of the Academy (“Key Members/Managers”). Loss of such Key Members/Managers could adversely affect the Academy’s operations or financial results. It is anticipated that over time that public school academies will become less dependent upon the Key Members/Managers. However, there can be no assurance that this will occur.

## **Resale of Bonds/Lack of Secondary Market**

There can be no assurance that there will be a secondary market for the Bonds.

## **Enforceability of Remedies; Bankruptcy**

Remedies provided for in the Indenture, the Mortgage, and the Indenture may be unenforceable as a result of the application of principles of equity or of state and federal laws relating to bankruptcy, other forms of debtor relief, and creditors’ rights generally. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and sale or leasing with respect thereto. The enforcement of any remedies provided in the Indenture, the Mortgage and the Indenture could prove both expensive and time consuming.

**Bankruptcy proceedings by the Academy also could have adverse effects on holders of the Bonds, including (a) delay in enforcement of their remedies, (b) subordination of their claims to claims of those supplying goods and services to the Academy after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings, and (c) imposition without their consent of a plan of reorganization reducing or delaying payment of the Bonds. The United States Bankruptcy Code contains provisions intended to ensure that, in any plan of reorganization not accepted by at least a majority of any class of creditors such as the holders of the Bonds, such class of creditors will have the benefit of their original claim or the “indubitable equivalent” of it, although the plan may not provide for payment in full of the Bonds. The effect of these and other provisions of the United States Bankruptcy Code cannot be predicted and may be affected significantly by judicial interpretation.**

## **Determination of Taxability**

If a Determination of Taxability (as defined in the Indenture) were to occur, the Bonds would be subject to mandatory redemption, as a whole and not in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date, on the earliest practicable date for which notice can be given following such determination. No assurance can be made that under these circumstances, the Academy would possess the ability to make the required payments.

## **Factors Associated with the Academy’s Operations**

There are a number of factors affecting schools in general that could have an adverse effect on the Academy’s financial position and ability to make the debt service payments required under the Indenture. These factors include, but are not limited to, increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodation of persons with disabilities; any unionization of the Academy’s workforce with consequent impact on wage scales and operating costs of the Academy; the ability to attract a sufficient number of students; changes in existing statutes pertaining to the powers of the Academy and disruption of the Academy’s operations by real or perceived threats against the school, its staff members or students. The Academy cannot assess or predict the ultimate effect of these factors on its operations or financial results of its operations or on its ability to make debt service payments with respect to the Bonds.

## **TAX MATTERS**

### **General**

In the opinion of Varnum, Riddering, Schmidt & Howlett, LLP, Bond Counsel, and the Attorney General of the State of Michigan, based on their examination of the documents described in their opinions and assuming the accuracy of the representations of the Academy in such documents and the compliance by the Academy with the provisions of those documents, under existing law as presently interpreted, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion set forth in clause (a) above is subject to the condition that the Academy comply with all requirements of the Internal Revenue Code of 1986, as amended, and all rules and regulations promulgated thereunder (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Academy has covenanted to comply with all such requirements to the extent permitted by law. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

There are additional federal tax consequences relative to the Bonds and the interest thereon. The following is a general description of some of these consequences, but is not intended to be complete or exhaustive, and investors should consult with their tax advisors with respect to these matters. Prospective purchasers of the Bonds should be aware that: (a) tax-exempt interest, including interest on the Bonds, is included in the calculation of modified adjusted gross income required to determine the taxability of social security or railroad retirement benefits; (b) the receipt of tax-exempt interest, including interest on the Bonds, by life insurance companies may affect the federal income tax liabilities of such companies; (c) the amount of certain loss deductions otherwise allowable to property and casualty insurance companies will be reduced (in certain instances below zero) by 15% of, among other things, tax-exempt interest, including interest on the Bonds; (d) interest incurred or continued to purchase or carry the Bonds may not be deducted in determining federal income tax; (e) commercial banks, thrift institutions and other financial institutions may not deduct their costs of carrying certain obligations such as the Bonds; (f) interest on the Bonds will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States; and (g) passive investment income including interest on the Bonds, may be subject to federal income taxation for S Corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporations is passive investment income.

Bond Counsel and the Attorney General of the State of Michigan are further of the opinion that, under existing law as presently interpreted, the Bonds and the interest thereon are exempt from all taxation presently in effect in the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS AND THE TAX CONSEQUENCES.

### **Future Developments**

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals which could cause the interest on the Bonds to be subject directly or indirectly to federal or State of Michigan income taxation adversely affect the market price or marketability of the Bonds, or otherwise prevent the Registered Owners from realizing the full current benefit of the status of the interest thereon. Further, no assurance can be given that any such future legislation, or any actions of the Internal Revenue Service, including but not limited to selection of the Bonds for audit examination, or the audit process or result of any examination of the Bonds, or other bonds which present similar tax issues, will not adversely affect the market

price or marketability of the Bonds, or otherwise prevent bondholders from realizing the full, current benefit of the status of the interest thereon.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

THE OPINIONS EXPRESSED BY BOND COUNSEL AND THE ATTORNEY GENERAL OF THE STATE OF MICHIGAN ARE BASED UPON EXISTING LEGISLATION AS OF THE DATE OF ISSUANCE AND DELIVERY OF THE BONDS AND BOND COUNSEL AND THE ATTORNEY GENERAL OF THE STATE OF MICHIGAN HAVE EXPRESSED NO OPINION AS OF ANY DATE SUBSEQUENT THERETO OR WITH RESPECT TO ANY PENDING LEGISLATION. INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS AND THE TAX CONSEQUENCES.

#### **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds and with regard to the tax-exempt status thereof, will be passed upon by Bond Counsel and the Attorney General of the State of Michigan. Copies of the approving opinion of Bond Counsel and of the Attorney General in the forms attached as Appendices G and H hereto, will be available at the time of the delivery of the Bonds. Certain legal matters will be passed upon for the Academy by Clark Hill PLC, Birmingham, Michigan. Certain legal matters will be passed upon for the Placement Agent by Dickinson Wright PLLC, Bloomfield Hills, Michigan.

#### **BEST EFFORTS PRIVATE PLACEMENT**

The Bonds are being purchased by the Institutional Investors pursuant to a placement agreement at negotiated prices. The Placement Agent has agreed to use its best efforts to place the Bonds with the Institutional Investors for the price of par, subject to the terms of such placement agreement. The Placement Agent's compensation shall be \$80,000. The obligation of the Institutional Investors to accept delivery of the Bonds is subject to various conditions contained in the placement agreement. The placement agreement provides that the Placement Agent will place all of the Bonds if any are placed and requires the Academy to indemnify the Issuer and the Placement Agent against losses, claims, damages and liabilities arising out of any statements or information contained in the Limited Offering Memorandum pertaining to the Academy and certain other matters that are incorrect in any material respect. Neither the Attorney General nor Varnum, Riddering, Schmidt & Howlett, LLP, will express any opinion concerning the investment quality of the Bonds, or the accuracy, completeness or sufficiency of any offering material relative to the Bonds.

#### **LITIGATION**

There is no litigation of any nature pending or threatened against the Academy to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds or the application of the proceeds thereof toward the refunding of a portion of the Prior Obligations, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Academy taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security for the Bonds or the existence or powers of the Academy. It is expected, however, that the Institutional Investors will pursue remedies against third parties (each a "Third-Party Litigant") to compensate the Institutional Investors for losses relating to the Prior Obligations and the Transaction. THERE CAN BE NO ASSURANCE THAT SUCH THIRD PARTIES WILL NOT ASSERT CLAIMS AGAINST THE ACADEMY AND JOIN IT AS A PARTY OR FILE SUIT AGAINST THE ACADEMY DIRECTLY.

There is no litigation pending or, to the knowledge of the Academy, threatened against the Academy, wherein an unfavorable decision would adversely affect the ability of the Academy to carry out its obligations under the Financing Agreement or the Indenture or would have a material adverse impact on the financial position of the Academy. HOWEVER, THERE CAN BE NO ASSURANCE THAT A THIRD-PARTY LITIGANT WILL NOT

INSTITUTE LITIGATION IN THE FUTURE THAT, IF SUCCESSFUL, COULD HAVE AN ADVERSE IMPACT ON THE ACADEMY'S ABILITY TO CARRY OUT ITS OBLIGATIONS UNDER THE FINANCING AGREEMENT OR THE MUNICIPAL OBLIGATION OR WOULD HAVE A MATERIAL ADVERSE IMPACT ON THE FINANCIAL POSITION OF THE ACADEMY.

### **CONTINUING DISCLOSURE REQUIREMENTS**

The Bonds will be issued in denominations of \$100,000 and any integral multiple of \$2,500 in excess thereof and are being offered only to the Institutional Investors each of whom will represent that it (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the prospective investment and (ii) is not purchasing for more than one account or with a view to distributing or reselling the Bonds. Accordingly, the Bonds are exempt from the continuing disclosure requirements of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Continuing Disclosure Rule"). However, the Academy has agreed to execute and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), with respect to the Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and Beneficial Owners (as defined in the Continuing Disclosure Agreement) of the Bonds. See "Appendix I – Form of Continuing Disclosure Agreement."

Pursuant to the Continuing Disclosure Agreement, the Academy will agree to provide, or cause to be provided, annually to designated information repositories certain quantitative financial information and operating data of the type specified in the Continuing Disclosure Agreement (the "Annual Report"); and to provide in a timely manner to designated information repositories notice of the occurrence of certain events, if material (within the meaning of the Continuing Disclosure Rule), and of any failure to provide the Annual Report when due. The Continuing Disclosure Agreement does not require that information be provided to Registered Owners or Beneficial Owners of the Bonds, but rather requires only that such information be provided to certain information repositories. The Academy has never failed to comply in all material respects with any previous undertaking with regard to the Rule to provide financial information and data, operating data or material events.

If the Academy were required to comply with the Continuing Disclosure Rule, a failure by the Academy to comply with the undertaking must be reported by the Academy in accordance with the Continuing Disclosure Rule and must be considered by a broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of the Bonds and the market price therefor.

### **BONDS NOT A DEBT OF STATE**

The Bonds will not constitute or create any debt or debts, liability or liabilities on behalf of the State or any political subdivision thereof, other than a limited obligation of the Issuer, nor a loan of the credit of the State or a pledge of the faith and credit of the State or of any such political subdivision, but will be payable solely from the funds provided therefor. The issuance of Bonds under the Indenture will not directly, indirectly or contingently obligate the State of Michigan, the Issuer, or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor, or to make any appropriation for their payment. The Issuer has no taxing power.

### **LEGALITY FOR INVESTMENT**

Subject to any applicable federal requirements or limitations, the Bonds, in the State of Michigan, are securities in which all insurance companies, banks, trust companies, savings banks and savings associations, savings and loan associations, investment companies, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them.

### **FINANCIAL STATEMENTS**

The financial statements of the Academy, as of and for the year ended June 30, 2005, June 30, 2006 and June 30, 2007, included in this Limited Offering Memorandum have been audited by Darnell & Meyering, P.C., to

the extent and for the periods indicated in their report thereon. The Academy requested that Darnell & Meyering, P.C. consent to the inclusion of its report for each such year in this Limited Offering Memorandum, but Darnell & Meyering, P.C. declined to do so. Notwithstanding the foregoing, the Academy is not aware of any facts that would make the audited financial statements misleading. The Academy has recently hired a new auditing firm, Croskey, Lanni & Company, Inc., to complete its audit for the fiscal year ending June 30, 2008.

#### **MISCELLANEOUS**

The Bonds are intended to be exempt securities under the Securities Act of 1933, as amended (the "1933 Act"), and the offer, sale and delivery of the Bonds does not require registration under the 1933 Act or qualification of the Indenture under the Trust Indenture Act of 1939. The Academy has agreed that, during the course of the transaction and prior to the sale of the Bonds, potential investors may ask questions of and receive answers from its representatives concerning the terms and conditions of the offering and that potential investors may obtain from it any additional information necessary to verify the accuracy of the information furnished, in each case to the extent it possesses such information or can acquire it without unreasonable effort or expense. Any request for information may be directed to the Placement Agent.

The Academy has furnished the information herein relating to itself. The Issuer has furnished the information herein relating to itself. The Placement Agent has furnished the information in this Limited Offering Memorandum with respect to the offering prices of the Bonds and the information under the caption "Best Efforts Private Placement."

All quotations from, and summaries and explanations of, the Indenture and other documents referred to herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. All references herein to the Bonds are qualified by the definitive forms thereof and the information with respect thereto contained in the Indenture. This Limited Offering Memorandum shall not be construed as constituting an agreement with purchasers of the Bonds. The cover page, introductory statement and the attached Appendices are part of this Limited Offering Memorandum. All information contained in this Limited Offering Memorandum, including the Appendices, is subject to change and/or correction without notice and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder creates any implication that the information contained herein is complete or accurate in its entirety as of any date after the date hereof.

ANY STATEMENTS MADE IN THIS LIMITED OFFERING MEMORANDUM INVOLVING MATTERS OF OPINION OR ASSUMPTIONS OR ESTIMATES, WHETHER OR NOT SO EXPRESSLY STATED, ARE SET FORTH AS SUCH AND NOT AS REPRESENTATIONS OF FACT AND NO REPRESENTATION IS MADE THAT ANY OF THE ESTIMATES OR ASSUMPTIONS WILL BE REALIZED.

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**APPENDIX A**

**CRESCENT ACADEMY**

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## **APPENDIX A<sup>1</sup>**

### **CRESCENT ACADEMY**

#### **General**

Crescent Academy (the "Academy") is a public school academy and governmental agency of the State of Michigan, organized pursuant to Part 6A of Act No. 451 of the Public Acts of 1976, Michigan Compiled Laws ("M.C.L."), Section 380.501 et. seq. (the "Revised School Code") and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. Section 450.2101 et. seq.

The Academy is governed by a volunteer Board of Directors and operates under a charter contract (the "Charter") with the Bay Mills Community College Board of Regents ("BMCC Board"), its authorizing body. The Charter has an initial eight-year term expiring June 30, 2012, unless sooner terminated in accordance with the terms of the Charter (see discussion below under the caption "THE CHARTER AGREEMENT").

The Academy began operations as a public school academy in 2003 (2003/2004) enrolling 191 students and offering grades Kindergarten through Sixth with the intention of adding one grade each successive year. In 2004, the Academy added grade 7 and reconfigured the existing building to enroll 214 students. The Academy currently offers grades Kindergarten through Eighth and projects total enrollment for the 2008-2009 school year at 325 students. (See "Table 1 – Historical and Projected September Enrollment").

The Academy's students are primarily disadvantaged economically in terms of socio-economic background and educational needs. The Academy is located in Southfield, Michigan (Oakland County), a fully developed inner-ring middle-class suburb of Detroit. While the Academy attracts some students from its home community, it also draws 90% of its students from Detroit, Oak Park, Roseville, Royal Oak, Canton, Pontiac, Bloomfield, and Farmington Hills. In addition, while it has many high achieving students, the Academy also serves a student population of 6.58% whom qualify for special education services.

#### **Crescent Academy Administration**

The Academy has contracted with CS Partners, LLC and CSP Management Inc. (collectively, "CS Partners") to provide full management services to the Academy. CS Partners will employ 23 full time teachers and 6 assistants for the 2008-09 school year at the Academy (see discussion below under the caption "EDUCATIONAL SERVICES PROVIDER").

Cherise Cupidore is the Director of the Academy. Ms. Cupidore joined the Academy in 2006 as the Academy's middle school administrator after more than twelve years experience as a school administrator and executive. Immediately prior to joining the Academy, Ms. Cupidore directed programs for Marygrove College and worked as Regional Vice-President for Imagine Schools. Ms. Cupidore holds a Bachelor's degree in Sociology from DePaul University, a Master's degree in Educational Administration from Michigan State University, and is a Ph.D. candidate at Walden University.

Marlon Glenn is the Assistant Principal of the Academy. Mr. Glenn joined the Academy in 2007. Prior to joining the Academy, Mr. Glenn worked for ten years as an elementary education mathematics teacher, most recently at Old Redford Academy Middle School, and served for one year (2005-2006) as the Dean of Students of Old Redford Academy Middle School. Mr. Glenn holds a Bachelor's degree in Food Systems Economics and Management from Michigan State University and is currently pursuing a Master's degree in Education at Marygrove College.

### **MISSION STATEMENT**

All children can learn and it is through education that they acquire the foundation for success in our knowledge-based society. The mission of Crescent Academy will be to develop this foundation by offering an educational setting that nurtures in each student a deep and abiding curiosity as a prerequisite for sustained learning across a lifetime.

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<sup>1</sup> Information included in Appendix A of this Official Statement was obtained from the Academy unless otherwise noted.

## CURRICULUM

The K-8 educational program is designed to provide students with the literacy and numeracy skills to ensure success in any secondary program. The Academy places particular emphasis on Language Arts and Mathematics instruction, along with direct Technology instruction at all grade levels. The academic curriculum is content-rich, with strong text and resource support. In addition, the Academy stresses the development of essential life and social skills.

In general, instructional strategies are teacher-centered, delivered in traditional classroom settings. The intent is to provide students with a structured environment to encourage the development of the self-discipline that will help them to make sound educational and social choices. The Academy targets class size at not more than 24 students to adequately address the individual needs of its diverse student population, although some classrooms cannot accommodate more than 15 students. See Table 1 – “Classroom Capacity” below.

The Language Arts curriculum has been developed for use in conjunction with the Scott Foresman series. This is a research-based program which integrates the instruction of all of the Language Arts. Student performance objectives are aligned with grade-specific Michigan Curriculum Framework ("MCF") benchmarks, and will fully reflect grade level content expectations ("GLCEs"). Ability-based groupings will permit extended learning opportunities for struggling students and enrichment opportunities for accelerated learners.

The Mathematics program follows a classic format, emphasizing direct instruction with ample opportunity for review to reinforce basic skills. Instruction at all grade levels will be supported by student activities using math manipulatives. These activities will facilitate the transition from the concrete understanding of concepts to their symbolic representations. Curriculum objectives are fully aligned with grade-specific math benchmarks, and will include all GLCEs for Mathematics.

The Science curriculum is content-rich, recognizing the importance of a coherent body of knowledge as the basis for learning the scientific method. Teacher-centered lessons will be supported by science activities that will permit students to make observations, and collect and analyze data. Science performance objectives are fully aligned with grade-specific MCF benchmarks, and will reflect Science GLCEs when these become available.

The curriculum for Social Studies has been constructed along classic lines, introducing the students to the physical and cultural environment in a concentric pattern (family, community, regions, etc.). At each level, students will receive instruction in all four areas of Social Studies (history, geography, civics and economics), including objectives that address the Core Democratic Values. Recommended grade-level MCF benchmarks are met at all levels, and the curriculum will incorporate GLCEs for Social Studies when they are available.

In addition to the four core subject areas, students receive approximately one hour of instruction per week in each of the following: Physical Education, Music, Art and Technology.

The Academy is fully aware of its responsibility to equip students with the technological skills that will prepare them for the future. Consequently, students are afforded opportunities for both direct technology instruction and the integration of technology into the academic instructional process. The Academy provides a fully equipped computer lab, with Internet access, and students receive approximately one hour of direct technology instruction per week. The Technology curriculum has been aligned with Michigan Department of Education standards. In addition, each classroom is equipped with at least two desktop computers, which students may use for Internet research and word processing to complete assignments, as well as for assessment and remedial instruction. The Science curriculum has been designed to incorporate instruction in specific applications of scientific principles to a variety of technologies, including computers and electronics.

Student achievement is measured through a wide variety of assessments, used in conjunction with formal testing, to which the Academy remains committed. (See “Academic Performance” below).

Aggregate standardized test scores are compared year to year to evaluate student progress. Furthermore, point-to-point progress for individual students is measured.

The Academy provides full Special Education Services for students.

## THE CHARTER AGREEMENT

The Academy operates under a charter contract (the "Charter") with the Bay Mills Community College Board of Regents (the "BMCC Board " or the "Authorizing Body"). As the Academy's authorizing body, the BMCC Board is responsible for overseeing the Academy in complying with its Charter and with applicable state and federal laws pertaining to Michigan public school academies. The BMCC Board receives 3% of the Academy's state aid funds for providing such oversight and acting as the Academy's fiscal agent. As a matter of Michigan law, decisions to renew or not renew the Academy's Charter are in the sole discretion of the BMCC Board. The Academy's Charter may be terminated, suspended or revoked by the BMCC Board at any time prior to the expiration of the Charter term. On September 23, 1997, the Attorney General of Michigan issued a formal opinion that an authorizing body's decision to revoke a charter or decline to renew a charter for the operation of a public school academy is not subject to judicial review under State law.

Under the terms and conditions of the Charter, the Charter may be revoked by the BMCC Board **at any time, for any reason**. Unless otherwise agreed to by the BMCC Board and the Academy Board (as defined below), the Charter would terminate at the end of the school year in which the Charter is terminated.

Under the terms and conditions of the Charter, the Charter may also be revoked by the BMCC Board, upon a determination by the BMCC Board that one or more of the following statutory grounds for revocation have occurred:

- a) Failure of the Academy to abide by and meet the educational goals set forth in the Charter; or
- b) Failure of the Academy to comply with all state and federal law applicable to public school academies ("Applicable Law"); or
- c) Failure of the Academy to meet generally accepted public sector accounting principles; or
- d) The existence of one or more other grounds for revocation as specified in the Charter.

In addition to the statutory grounds for revocation set forth above, the BMCC Board may also revoke the Charter, pursuant to procedures set forth in the Charter, upon a determination by the BMCC Board that one or more of the following has occurred:

- a) The Academy is insolvent, has been adjudged bankrupt, or has operated for two or more school fiscal years with a fund balance deficit;
- b) The Academy has insufficient enrollment to successfully operate a public school academy, or the Academy has lost more than 50% of its student enrollment from the previous school year;
- c) The Academy defaults in any of the terms, conditions, promises or representations contained in or incorporated into the Charter;
- d) The Academy files amendments to its Articles of Incorporation with the Michigan Department of Labor and Economic Growth, Bureau of Commercial Services without first obtaining BMCC Charter School Office approval;
- e) The BMCC Charter Schools Office Director discovers grossly negligent, fraudulent or criminal conduct by the Academy's applicant(s), directors, officers, employees or agents in relation to their performance under the Charter; or
- f) The Academy's applicant(s), directors, officers, employees or agents have provided false or misleading information or documentation to the BMCC Charter Schools Office in connection with the BMCC Board's approval of the Charter application, the issuance of the Charter, or the Academy's reporting requirements under the Charter or applicable law.

The Charter also provides that the BMCC Board may immediately suspend the Charter, pending completion of procedures set forth in the Charter pertaining to revocation of the Charter, if the BMCC Charter Schools Office Director determines that probable cause exists to believe that the Academy:

- a) Has placed staff or students at risk;

- b) Is not properly exercising its fiduciary obligations to protect and preserve the Academy's public funds and property;
- c) Has lost its right to occupancy of the physical facility for the Academy and cannot find another suitable physical facility for the Academy prior to the expiration or termination of its right to occupy its existing physical facilities;
- d) Has failed to secure or lost the necessary fire, health and safety approvals as required by the Charter;
- e) Has willfully or intentionally violated the Charter or Applicable Law; or
- f) Has violated the requirements described in (e) and (f) of the section immediately above (regarding revocation).

The Charter provides procedures pursuant to which the Charter may be revoked by the BMCC Board. Those procedures require the BMCC Charter School Office to issue a notice of intent to revoke notifying the Academy of the BMCC Charter School Office's reasonable belief of grounds for revocation. The Academy Board has 30 days to respond in writing, and must include a plan for correcting any admitted non-compliance. Within 15 days of receipt of the Academy Board's response, BMCC Charter School Office formulates its own plan of correction, and in so doing may adopt, modify or reject some or the entire plan proposed in the Academy Board's response. The revocation proceedings are closed if (i) the Academy Board's denial of non-compliance is persuasive, (ii) the non-compliance has been corrected by the Academy Board, or (iii) the Academy has successfully completed the plan of correction. BMCC Charter School Office Director may initiate a revocation hearing before a BMCC Charter Schools Hearing Panel (the "Hearing Panel") if none of these conditions are met, or if the BMCC Charter Schools Office determines that a plan of correction cannot be formulated, or if the Academy has been issued multiple or repeated notices of intent to revoke. The Hearing Panel convenes within 30 days after the hearing and makes a recommendation concerning revocation, which is submitted to the BMCC Board. The BMCC Board may approve, reject or modify all or any part of the Hearing Panel's recommendation. If the BMCC Board votes to revoke the Charter, the revocation may be immediately effective, and there is no appeal process provided. The BMCC Charter Schools Office Director may also immediately suspend the Charter (upon a determination that one of the grounds set forth above exists) pending completion of the revocation procedures described above. In addition, the Hearing Panel may immediately convene a revocation hearing in accordance with the above described procedures and has the authority to accelerate the time line for revoking the Charter with five (5) day notice to the Academy Board, and may recommend revocation of the Charter if the Hearing Panel determines that the Academy Board has continued to engage in conduct or activities that are covered by the suspension notice.

On April 17, 2007, the BMCC Board issued a Notice of Intent to Revoke (the "Notice of Intent"), which alleged various irregularities with the transaction pertaining to and including the issuance of the Prior Obligations (the "Transaction"), and required that the Academy unwind the Transaction or risk termination of its Charter. The Academy executed a Plan of Correction, dated as of August 8, 2007 (the "Correction Plan"), in response to the Notice of Intent which sets forth numerous actions to be taken by the Academy to avoid termination of its Charter, which includes formulating and implementing a plan to "unwind" the Transaction. If the BMCC Charter Schools Office Director, in his discretion, determines that the Academy Board has not complied with part or all of the Correction Plan, the Charter Schools Office Director can initiate a revocation hearing to revoke the Charter. Nothing in the Correction Plan in any way limits or restricts the BMCC Board's rights to terminate the Charter. The BMCC Charter Schools Office Director has confirmed in writing that if certain conditions are met with the issuance of the Bonds, the Academy will have complied with the Correction Plan and the revocation proceedings will be closed pursuant to the Charter.

## **BOARD OF DIRECTORS**

The governing body for the Academy consists of a five-member Board of Directors (the "Academy Board"). The Academy Board sets policy required to implement Michigan's public school laws, e.g., educational goals, curriculum, standards of student conduct, and teacher qualifications, etc. The Academy Board also provides oversight and monitoring of all financial matters. Academy Board members represent a wide range of business, professional, and community occupations.



### **Weiya Sandi Liang - President**

Ms. Liang received a BA/BS in Computer Science and French from the University of Michigan. Designations include: NASD 7, NASD 63, Life and Health, Variable Contracts and Investment Advisory Representative. She is currently a Financial Advisor for AIG VALIC, where she has been recognized as the top advisor in the district. Ms. Liang manages over \$38 million in personal client assets and has built and managed a client base of over 600 clients in the Ann Arbor-Detroit Metropolitan area. She also has a closing ratio of 95% with new clients and trainees.

### **Laura Jane Murphy - Vice President**

Ms. Murphy is currently a Doctoral Candidate at the Michigan School for Professional Psychology. In 1991, she received a BA in Psychology and Dance from Georgia State University. In 2006, she received a MA in Humanistic and Clinical Psychology. Ms. Murphy is currently certified by the State of Michigan's Board of Psychology with a temporary limited license. She also has been certified by the State of Michigan's Board of Social Work as a Registered Social Work Technician. Ms. Murphy currently serves as a Consulting Psychotherapist in a drug and alcohol residential treatment center working with adult referrals from the Michigan Department of Corrections. Ms. Murphy has also served as an Adjunct Professor at Oakland International Academy in Detroit, Michigan, as well as the Midland Center for the Arts in Midland, Michigan.

### **Farrita Jackson – Secretary**

Ms. Jackson is a Manager at Detroit Receiving Hospital, where she has worked for over 25 years. She has received awards for her service with the Employee Ambassador Program, the Process Improvement Team, successful implementation of the Electronic Medical Record, and for National Admitting Week. Ms. Jackson has attended Southwestern H.S. as well as H.F. College for classes in the area of Business Administration. She is also the parent of a student at Crescent Academy.

### **Steven Babinchak – Treasurer**

Mr. Babinchak has a Masters of Science in Finance from Walsh College, Troy, Michigan and a Bachelors of Science in Business Administration from Wayne State University in Detroit, Michigan. He also has a Certification in Municipal Finance Administration from Central Michigan University in Mt. Pleasant, Michigan. Mr. Babinchak has been the Program Director of Finance for W-3 Construction, the Treasurer for the City of Novi, and a Board of Trustee for Cadre Securities Inc., MIGIT Fund. He also authored the City of Novi's Investment Policy that was adopted as a model for Michigan Municipalities by the Michigan Municipal Treasurers Association.

### **Hattie Calhoun – Director**

Ms. Calhoun is currently a MBA candidate from the University of Phoenix, Southfield, Michigan. In 1996, she received her Paralegal Certification from the Professional Career Development Institute, Roswell, GA. She then received her Bachelor of Science in Management from the University of Phoenix, Southfield, Michigan. Ms. Calhoun is currently a Code Enforcement Officer for the City of Southfield. She is also a Member of the Michigan Association of Code Enforcement Officers and a Constable for the City of Southfield. Ms. Calhoun has a son that attends Crescent Academy.

## **EDUCATIONAL SERVICES PROVIDER**

The Academy is a party to a Services Agreement (the "Services Agreement") with CS Partners, LLC and CSP Management Inc. (collectively, "CS Partners"), pursuant to which CS Partners manages the affairs of and provides educational services to the Academy. The Services Agreement expires June 30, 2012, subject to earlier termination as set forth in the Services Agreement. CS Partners has offices at 2120 Progressive Drive, Hartland, Michigan, and provides public school academies with services and products, including business management, curriculum, educational programs, teacher training and technology. CS Partners is currently the educational services provider for eight Michigan public school academies. The Academy faculty and staff are employed by or are contractors of CS Partners.

### **Summary of the Educational Provider Agreement**

The following is a brief summary of certain provisions of the Services Agreement. The following summary is not intended to be definitive, and it is not a complete explanation of all provisions of the Services Agreement.

Reference should be made to the Services Agreement, which is available from the Academy, for a complete recital of its terms.

### **Agreement to Operate**

Pursuant to the terms of the Services Agreement, CS Partners has agreed to provide administrative, personnel and business services to the Academy necessary for the operation, maintenance and management of the school, and to provide educational services for the pupils enrolled at the Academy.

### **Term**

The Services Agreement is effective for a four (4) year period beginning July 1, 2008 and ending June 30, 2012, subject to earlier termination by CS Partners or the Academy upon material breach of the terms of the Services Agreement, and further subject to termination by the Academy at will, without cause, and without penalty, on or after the third anniversary date of the Services Agreement.

### **Services Provided by CS Partners**

Under the terms of the Services Agreement, CS Partners is required to provide the following business and administrative support services, which services are to be provided by independent contractors or employees of CS Partners at the sole discretion of CS Partners, unless the Academy's Board of Directors requires otherwise: (a) implementation and administration of the educational program, including administration of any and all extra-curricular and co-curricular activities and programs, and the acquisition of instructional materials, equipment and supplies; (b) management of all personnel functions, including professional development for all instructional personnel outlined in the Services Agreement; (c) all aspects of business administration; (d) food service as the Academy's Board of Directors decides to implement; and (e) any other function necessary or expedient for the administration of the Academy with the approval of the Academy's Board of Directors.

CS Partners will employ all staff at the Academy. Currently, the Academy staff includes 2 administrators, 2 administrative assistants, 23 full-time teachers, 4 para-professionals, 2 custodians (1 full time & 1 part-time) and 4 bus drivers and 4 bus aides.

### **Compensation of CS**

As compensation for its services, CS Partners is paid by the Academy an annual fee of eleven percent (11%) of the product of the Academy's State School Aid basic foundation allowance multiplied by the number of full-time equated pupils enrolled and in regular daily attendance on the pupil membership count day for the current school year, subject to a minimum of \$206,250 and a maximum of \$412,500.

In addition to the compensation paid to CS Partners under the Services Agreement, the Academy will reimburse CS Partners for of all costs reasonably incurred and paid by CS Partners in providing the services specifically related to the Academy, including, but not limited to all employment costs of CS Partners' employees assigned to the Academy, other expenses for equipment, software, supplies, food service, transportation, special education, psychological services, and medical services.

## **THE ACADEMY'S FACILITY**

The Academy currently serves grades Kindergarten through Eighth and operates from a single location at 17570 West 12 Mile Road, Southfield, Michigan (the "Facility"). The Facility was originally an office building. In the 2006-2007 school year, additional classrooms along with a multi-purpose room were added to accommodate additional enrollment. The expansion resulted in the Academy gaining a total of 17 classrooms, a multi-purpose room, computer room, music room, library, first floor and second floor copy room, two administrative offices, 1 special education room, 1 speech room, 1 ancillary office located on the second floor, adequate restroom facilities, one mezzanine area located on the north end of the building, as well as a conference rooms, offices and a staff lounge. A 9,000 square foot addition was made to the building in 2006. The added space is used for a gymnasium, lunch prep kitchen, offices and locker hallway. The Facility consists of approximately 31,900 square feet.

The Facility can comfortably accommodate 330 students, and the Academy believes that, if necessary, the existing classrooms could accommodate up to 346 students. The following table shows the seventeen classrooms that are presently being utilized at the Facility and the estimated capacity of each classroom.

**Table 1**  
**Classroom Capacity**

Grade/Room#	Capacity
Kindergarten – 104	18-20
Kindergarten – 106	18-20
First Grade – 108	18-20
First Grade – 110	15
Second Grade – 105	15
Second Grade – 112	18-20
Second Grade – 114	18-20
Third Grade – 116	18-20
Third Grade – 118	18-20
Fourth Grade – 212	16
Fourth Grade – 218	20-22
Fifth Grade – 210	20-22
Sixth Grade – 207	24
Sixth Grade – 208	18-20
Seventh Grade – 204	24
Seventh Grade – 205	24
Eighth Grade – 202	24
<b>Total</b>	<b>326-346</b>

## ENROLLMENT

The Academy began operations in September of 2003 with grades K-6. In 2004 and 2006, the Academy added grades 7 and 8 and expanded its Facility to meet student enrollment demand. The following table sets forth data provided by the Academy regarding its historical and projected enrollment as of September of each year:

**Table 2**  
**Historical and Projected September Enrollment**

<u>Grades</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
K	32	48	39	36	36	40	40	40	40	40	40
1	31	28	31	58	34	40	40	40	40	40	40
2	30	24	28	40	49	40	40	40	40	40	40
3	28	26	19	41	39	40	40	40	40	40	40
4	25	27	24	19	32	40	40	40	40	40	40
5	25	23	29	42	20	40	40	40	40	40	40
6	20	22	13	44	34	<u>35</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>
7		<u>16</u>	<u>28</u>	23	39	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>
8				<u>31</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>
Total	<u>191</u>	<u>214</u>	<u>211</u>	<u>334</u>	<u>308</u>	<u>325</u>	<u>330</u>	<u>330</u>	<u>330</u>	<u>330</u>	<u>330</u>

Source: The Academy; data presented for 2003-04 through 2007-08 is actual data as of the beginning of the school years. Data presented for 2008-09 through 2013-14 is projected by the Academy and CS Partners.

The Academy believes that its enrollment performance tracks a demand within the student demographic principally served by the Academy for educational choices other than those presented by the traditional public school districts, principally Southfield Public Schools and Detroit Public Schools.

**Table 3**  
**Comparative Enrollment Growth**

	<u>Academy</u>	<u>Southfield Public Schools</u>	<u>Detroit Public Schools</u>
2003-04	191	10,277	145,273
2004-05	214	10,042	133,306
2005-06	211	9,902	123,024
2006-07	334	9,419	109,511
2007-08	308	9,187	101,948

Source: The Academy, from data made available by the Michigan Department of Education.

### SERVICE AREA AND COMPETING SCHOOLS

The majority of the Academy's students reside in the City of Detroit. The Academy also serves Oakland County communities of Oak Park, Roseville, Royal Oak, Canton, Pontiac, Bloomfield, and Farmington Hills.

Because the majority of the Academy's students reside in Southfield and Detroit, it competes for students mostly with public schools and public school academies within that area:

- McIntyre Elementary School, located approximately 1.1 miles from the Academy, with an enrollment of approximately 391 students in grades K through 5;
- Fred D. Leonhard Elementary School, located approximately 1.7 miles from the Academy, with an enrollment of approximately 357 students in grades K through 5;
- Glenn Schoenhals Elementary School, located approximately 1.6 miles from the Academy, with an enrollment of approximately 378 students in grades K through 5;
- Vandenberg Elementary School, located approximately 0.7 mile from the Academy, with an enrollment of approximately 378 students in grades K through 5;
- Academy of Lathrup Village, located approximately 0.7 mile from the Academy, with an enrollment of approximately 455 students in grades K through 8; and
- Morris Adler Elementary School, located approximately 1.9 miles from the Academy, with enrollment of approximately 382 students in grades K through 5.

Due to a legislative "cap" on the number of charter schools that can be authorized by state universities, there is limited charter school competition expected in the near future. However, state universities have in the past offered charters to new applicants from charters that have been relinquished either voluntarily or involuntarily by existing charter schools, and hence there can be no assurance that such a charter would not be granted in the future to a public school academy that may compete with the Academy.

Regarding community college authorizers, in the past 3 years, the BMCC Board has been the most active authorizer in the State. The BMCC Board may authorize charter schools anywhere throughout the State of Michigan, except within the boundaries of the Detroit Public Schools.

Other community colleges, and intermediate and local public school districts may also authorize charter schools within their district boundaries. To date, 230 charter schools have been authorized in Michigan, by various authorizers as follows:

- 148 authorized by state universities;
- 39 authorized by community colleges (32 by BMCC);

- 29 authorized by intermediate school districts (6 in Wayne County, which includes the City of Detroit); and
- 14 authorized by local school districts (9 by the Detroit Public School District).

## ACADEMIC PERFORMANCE

### Academic Achievement Indicators

The achievement of students at the Academy is measured in several ways. The Academy's students are required to take the Michigan Educational Assessment Program ("MEAP") tests – the state assessment test required in all public schools.

The following chart depicts the percent of students who tested as proficient on the 2007-2008 MEAP as compared to Detroit Public Schools and the State of Michigan.

**Table 4**  
**Michigan Educational Assessment Program**  
**Comparison of 2007-2008 Test Score Data**

2007-2008 MEAP Test	% of Students Proficient Crescent Academy	% of Students Proficient Detroit Public Schools	% of Students Proficient State of Michigan
<b>Subject and Grade</b>			
ELA Grade 3	46.2%	62.4%	81.0%
ELA Grade 4	29.0%	52.1%	76.0%
ELA Grade 5	45.0%	51.0%	78.0%
ELA Grade 6	45.7%	50.9%	80.0%
ELA Grade 7	35.0%	41.9%	74.0%
ELA Grade 8	56.0%	49.0%	75.0%
Math Grade 3	66.7%	70.0%	90.0%
Math Grade 4	45.2%	63.7%	86.0%
Math Grade 5	45.0%	43.1%	74.0%
Math Grade 6	34.3%	39.2%	73.0%
Math Grade 7	5.0%	43.5%	73.0%
Math Grade 8	24.0%	38.6%	71.0%
Science Grade 5	55.0%	56.1%	82.0%
Science Grade 8	56.0%	48.9%	79.0%
Social Studies Grade 6	40.0%	38.6%	73.0%

Source: <https://oeaa.state.mi.us/oeaa/directory/index.asp?DCode=63921&BCode=09445>

### Michigan Educational Assessment Program – Student Assessment Data

MEAP measures student performances against state standards in reading, writing, mathematics, science and social studies. The Academy's 3rd, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> grade students were tested in October 2005, 2006 and 2007 and the Academy's 8<sup>th</sup> grade students were tested in October 2006 and 2007.

**Table 5**  
**Michigan Education Assessment Program Data**

	<b>Grade 3</b>		
	<b>Reading</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	68.8	72.5	53.8
Percent at Basic Level	25.0	25.0	41.0
	<b>Writing</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	25.0	42.5	30.8
Percent at Basic Level	50.	37.5	33.3
	<b>English Language Arts</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	43.8	57.5	46.2
Percent at Basic Level	43.8	37.5	41.0
	<b>Math</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	75.0	62.5	66.7
Percent at Basic Level	25.0	27.5	33.3

	<b>Grade 4</b>		
	<b>Reading</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	55.2	52.6	38.7
Percent at Basic Level	37.9	42.1	41.9
	<b>Writing</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	20.7	21.1	16.1
Percent at Basic Level	62.1	73.7	74.2
	<b>English Language Arts</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	37.9	52.6	29.0
Percent at Basic Level	48.3	42.1	51.6
	<b>Math</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	31.0	47.4	45.2
Percent at Basic Level	48.3	42.1	41.9



	<b>Grade 5</b>		
	<b>Reading</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	65.5	60.0	60.0
Percent at Basic Level	27.6	20.0	30.0
	<b>Writing</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	31.0	42.5	25.0
Percent at Basic Level	62.1	40.0	55.0
	<b>English Language Arts</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	41.4	50.0	45.0
Percent at Basic Level	51.7	37.5	40.0
	<b>Math</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	31.0	37.5	45.0
Percent at Basic Level	48.3	45.0	50.0
	<b>Science</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	31.0	47.4	55.0
Percent at Basic Level	55.2	34.2	20.0

	<b>Grade 6</b>		
	<b>Reading</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	71.4	65.9	54.3
Percent at Basic Level	21.4	22.7	31.4
	<b>Writing</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	21.4	56.8	40.0
Percent at Basic Level	71.4	36.4	45.7
	<b>English Language Arts</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	28.6	56.8	45.7
Percent at Basic Level	64.3	36.4	42.9
	<b>Math</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	7.1	20.5	34.3
Percent at Basic Level	57.1	47.7	48.6
	<b>Social Studies</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	21.4	34.1	40.0
Percent at Basic Level	35.7	31.8	17.1

	<b>Grade 7</b>		
	<b>Reading</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	56.0	56.5	35.0
Percent at Basic Level	24.0	17.4	30.0
	<b>Writing</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	72.0	26.1	45.0
Percent at Basic Level	24.0	47.8	37.5
	<b>English Language Arts</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	56.0	39.1	35.0
Percent at Basic Level	36.0	47.8	37.5
	<b>Math</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	20.0	30.4	5.0
Percent at Basic Level	44.0	52.2	75.0

	<b>Grade 8</b>		
	<b>Reading</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	--	50.0	68.0
Percent at Basic Level	--	36.7	16.0
	<b>Writing</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	--	56.7	36.0
Percent at Basic Level	--	26.7	48.0
	<b>English Language Arts</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	--	43.3	56.0
Percent at Basic Level	--	46.7	32.0
	<b>Math</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	--	16.7	24.0
Percent at Basic Level	--	60.0	48.0
	<b>Science</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Percent Exceeded or Met Standards	--	36.7	56.0
Percent at Basic Level	--	50.0	32.0

Source: <https://oeaa.state.mi.us/oeaa/directory/index.asp?DCode=63921&BCode=09445>

### The No Child Left Behind Act, AYP and the Status of School Improvement

Adequate Yearly Progress ("AYP") is one of the cornerstones of the federal No Child Left Behind Act ("NCLB"). In Michigan, it is a measure of year-to-year student achievement on the MEAP test. According to NCLB, Michigan and other states must develop target starting goals for AYP and the state must raise the bar in gradual increments so 100% of the students in the state are proficient on state assessments by the 2013-14 school year. The NCLB requires that AYP be calculated for all public schools and for each school district. The school district must attain the target achievement goal in reading and mathematics or reduce the percentage of students in the not-proficient category (basic and apprentice) of achievement by 10% ("safe harbor"). A school district must

also test at least 95% of its students enrolled for the school as a whole and for each required student group. In addition, the district must meet or exceed the other academic indicators set by the state; attendance rate for elementary and middle school levels and graduation rate for the high school. These achievement goals must be reached for each subgroup that has at least 30 students in a group. The group size is the same for the school and for the school district. A school district is considered to have made AYP if the district makes AYP (in both English Language Arts and in Mathematics) at two of the three grade ranges-elementary, middle school and high school. AYP applies to each district and school in the state; however, NCLB sanctions for schools that do not make AYP for two or more years in a row, only apply to those districts and schools that receive Title I funds. Crescent Academy met AYP for the 2006-07 and 2007-08 academic years.

The requirements for "Title I" schools (as reauthorized in NCLB) that do not make AYP in English Language Arts or Mathematics depend on the number of years for which the school has not made AYP. The requirements are designed to give Title I schools an opportunity to improve their programs, with assistance from the school district and outside experts if the district determines that they are needed. If a Title I school continues not to make AYP, the district is required to take specific actions to improve student academic achievement in the school.

At the same time as the improvement efforts are undertaken, students attending schools that do not make AYP in English Language Arts or Mathematics are given other educational options. These options vary depending on the number of years the school has failed to make AYP.

The specific requirements for Title I schools that do not make AYP in English Language Arts or Mathematics for one year are as follows:

- Because a school's MEAP results can change from year to year for many reasons, a school that does not make AYP for one year is given a second year to demonstrate that it can make AYP.
- There are no actions that the school or school district must take because a school has not made AYP for one year.

*Source: [https://oeaa.state.mi.us/ayp/school\\_one\\_only\\_1\\_2004.asp?ECDId=7551&Grade=8](https://oeaa.state.mi.us/ayp/school_one_only_1_2004.asp?ECDId=7551&Grade=8)School Report Card*

### **School Report Card**

The Michigan Department of Education issues "School Report Cards" to Michigan schools. The composite letter grade given by the State of Michigan for 2006-07 academic year was a C for Grades 3-8. The tables below details the individual scores that gave the Academy the composite grades. The Composite Grade is the overall grade for the school, arrived at by combining student achievement, indicators of school performance and AYP status. When data is available, it combines results over 2 or 3 years. A score and grade is assigned for each content area that is part of the School Report Card. The score is calculated on a common school grading scale with 90-100 as an A. The score is based on achievement status, with the score averaged with the adjusted change score to yield the score and grade for the subject area.

**Table 6**  
**Student Report Card**  
**Grades Tested 3 - 8**

This report card provides an assessment of several measures of the Academy's performance.

	<b><u>Status Score</u></b> <b><u>2007-2008</u></b>	<b><u>Adjusted Score</u></b> <b><u>2007-2008</u></b>	<b><u>Ed Yes!</u></b> <b><u>Grade 2007-2008</u></b>
English Language Arts	60.8	56.7	F
Mathematics	69.6	69.6	D
Science	64.6	64.6	D
Social Studies	--	--	--
Achievement Subtotal	65.4	61.6	D
Indicators of School Performance		92	A
Preliminary Grade		74	C
AYP Status (Adequate Yearly Progress)	Met AYP		
Composite Grade	C		

Source: [https://oeaa.state.mi.us/ayp/school\\_one\\_only\\_1\\_2004.asp?ECDid=7551&Grade=8School](https://oeaa.state.mi.us/ayp/school_one_only_1_2004.asp?ECDid=7551&Grade=8School) Report Card

	<b><u>Status Score</u></b> <b><u>2006-2007</u></b>	<b><u>Adjusted Score</u></b> <b><u>2006-2007</u></b>	<b><u>Ed Yes!</u></b> <b><u>Grade 2006-2007</u></b>
English Language Arts	62.6	62.6	D
Mathematics	69.6	69.6	C
Science	--	--	--
Social Studies	--	--	--
Achievement Subtotal	66.1	66.1	D
Indicators of School Performance		92	A
Preliminary Grade		74	C
AYP Status (Adequate Yearly Progress)	Met AYP		
Composite Grade	C		

Source: [https://oeaa.state.mi.us/ayp/school\\_one\\_only\\_1\\_2004.asp?ECDid=7551&Grade=8School](https://oeaa.state.mi.us/ayp/school_one_only_1_2004.asp?ECDid=7551&Grade=8School) Report Card

### **The Composite Grade**

An achievement score for each content area is computed by averaging the Status and Change (or adjusted Change) scores for a content area. A preliminary aggregate achievement score is derived by averaging the scores from each content area. The preliminary aggregate achievement score is weighted 67% and the School Self-Assessment (Indicator score) is weighted 33% in calculating the preliminary score and grade for a school.

The reporting format for the School Report Card has not changed from prior years in that scores and grades are calculated for each content area for each school. The content areas remain the same, using only English Language Arts and Mathematics at the elementary level, and adding Science and Social Studies at the middle school and high school levels. The score and grade for each content area is based on the score for achievement status, as adjusted by averaging it with the score for achievement change.

- **Achievement Status** - The weighted index continues to be the basis of the calculation of Achievement Status. A score for Achievement Status is calculated for all schools where at least 30 students have valid MEAP scores in the content area at that grade range.

- **Achievement Change** - For elementary and middle schools, multiple linear regression has been used to predict each school's 2006-07 percent proficient based on the school's data from 2003-04 2004-05 and 2005-06. A prediction has been made for each content area and grade level that was tested in previous years. The prediction is compared to the school's actual 2006-07 percent proficient. This method allows the determination of an Achievement Change component, even across assessments that are not comparable. The school's achievement status score in each content area is adjusted based on whether the school exceeds or does not meet the prediction.
- **Indicators of School Performance** - The school's self-rating for each component, and the evidence provided, is available in the School Report Card "preview" that is available to authorized users. This information will be available to the public on the School Report Card when it is released.

Source: [https://oeaa.state.mi.us/ayp/school\\_one\\_only\\_1\\_2004.asp?ECDId=7551&grade=8](https://oeaa.state.mi.us/ayp/school_one_only_1_2004.asp?ECDId=7551&grade=8)

### **Iowa Test of Basic Skills Standardized Test**

The Academy utilizes the Iowa Test of Basic Skills Standardized Test ("ITBS"), a normed achievement test, to measure the academic performance of students. The following table reports the Academy's most recent ITBS results broken down by grade and subject:

**Table 7**  
**Academy's Most Recent ITBS Scores**

<u>Grade</u>	<u>Math – Spring 2006 Testing</u> <u>National Percentile Ranking</u>	<u>Grade</u>	<u>Reading – Spring 2006 Testing</u> <u>National Percentile Ranking</u>
K	44	K	65
1	41	1	60
2	36	2	55
3	30	3	43
4	19	4	44

### **Terra Nova Test Results**

The Terra Nova Survey Plus, Form A, published by CTB/McGraw-Hill, is given to the Academy's first grade students. This is a test designed to estimate a student's achievement level relative to grade-level peers across the country. The same score in both fall and spring indicates expected academic growth. A higher score in the spring reflects more than expected achievement while a lower score in the spring indicates less than expected gain.

The Academy conducted Terra Nova assessments in the fall of 2005 and again in the spring of 2006. This assessment is designed to estimate a student's achievement level relative to grade-level of their peers. The Academy did not conduct the Terra Nova assessments in the fall of 2007.

### **Parental Involvement / Parent Teacher Organization at the Academy**

The Academy encourages families to become actively involved in their child's education and school. Parents initiated a PTA (Parent, Teacher Association) with approximately ten active members. At least 70% of parents attended one or more of the four scheduled parent conferences. Volunteer opportunities exist throughout the Academy in the form of working with the classroom, chaperoning field trips, and attending open house, curriculum night and special school performances.

### **STATE AID PAYMENTS**

The Academy's principal source of revenue is a per-pupil base foundation allowance received from the State pursuant to the State School Aid Act of 1979, M.C.L. Section 388.1601 et. seq. Payments are sent directly to the BMCC Board, which forwards the payments to the Academy, minus a 3% authorizer fee.

The following table shows the per-pupil base foundation allowance that public school academies received for the 2003-04 through 2007-08 school years. It also shows the maximum foundation allowance that the Michigan Legislature allowed public school academies for those years (the table does not show the amount of the payments the Academy actually received during those years). The Academy received the maximum foundation allowance in each of the years presented in the table below, and also received additional amounts based upon the at-risk student population of the Academy within a given school year. See "Risk Factors" in forepart of this Official Statement for additional information, including appropriation, reduction and termination of state aid payments.

**Table 8**  
**Per Pupil Basic Foundation Allowance**

<u>Fiscal Year</u>	<u>Minimum Basic Foundation Allowance Per Pupil</u>	<u>Public School Academy Maximum Foundation Allowance Per Pupil</u>	<u>Foundation Allowance Received by Crescent</u>
2003-04	\$6,700	\$7,000	\$7,000
2004-05	6,700	7,000	7,000
2005-06	6,875	7,175	7,175
2006-07	7,085	7,385	7,385
2007-08	7,204	7,475	7,475

Source: The Academy, from information published in the Michigan School Aid Act and published by the Michigan Department of Education.

### **OTHER BORROWING**

The Academy has two state aid anticipation notes outstanding with Comerica Bank. The first note was issued on October 1, 2007 in the principal amount of \$880,000 with an interest rate of 5.75%. Principal payments of \$80,000 plus accrued interest are payable on the last day of each month, commencing October 31, 2007. The outstanding principal balance on the note is \$160,000, and two principal payments in the amount of \$80,000 each plus accrued interest are due on the note on July 31, 2008 and August 31, 2008, respectively.

The second note was issued on March 26, 2008 in the principal amount of \$655,000 with an interest rate of 5.75%. Accrued interest is payable on the last day of each month, commencing April 30, 2008. Principal is due upon maturity, and the note matures on September 30, 2008. The outstanding principal balance is \$655,000.

The Academy anticipates issuing a new note in August, 2008 in the approximate amount of \$900,000. A portion of the proceeds will be used to make the balloon payment of \$655,000 due on September 30, 2008. The note is expected to be amortized over a 10 month period beginning October 2008.

### **DEBT HISTORY**

In connection with the Prior Obligations, the Academy, the trustee for the Prior Obligations and owners holding not less than 85% of the outstanding Prior Obligations executed an Unwind Plan and Limited Standstill Agreement, dated February 28, 2008 (the "Unwind Agreement") which provided certain temporary accommodations to the Academy in order to permit the Academy to operate its public school academy while the parties formulated and implemented a plan to unwind the Transaction as required by the Plan of Correction. The Unwind Agreement deferred the payment of certain payments required under the documents relating to the Prior Obligations and provided that the owners of the Prior Obligations would not declare a default or event of default under the documents relating to the Prior Obligations. The Unwind Agreement provided for a deferral until May 31, 2008. On June 30, 2008, the Academy, the trustee for the Prior Obligations and owners holding 100% of the outstanding Prior Obligations, executed a First Addendum to Unwind Plan and Limited Standstill Agreement, effective as of May 31, 2008 to extend the deferral and agreement not to declare a default to and including July 31, 2008.

Pursuant to a Settlement, Tender and Release Agreement dated July 25, 2008, as amended (the "Settlement Agreement"), among the Academy, the trustee for the Prior Obligations and owners holding 100% of the



outstanding Prior Obligations (the "Institutional Investors"), once the Bonds are sold and the proceeds are deposited in the various accounts as described in the Indenture and the Settlement Agreement, the Academy's obligations to the Institutional Investors with respect to the Prior Obligations shall be deemed extinguished and the Prior Obligations shall be cancelled and the Prior Indenture and all other agreements related thereto shall cease, terminate and become void.

The Academy entered into a Master Equipment Lease Agreement, dated June 22, 2007 (the "Helicon Lease"), with Helicon Associates, Inc. ("Helicon"), the Academy's management company at the time. The Helicon Lease required monthly payments of principal and interest in the amount of \$8,791.59 for 12 months. The Academy paid two monthly installments under the Helicon Lease before the Academy terminated Helicon and ceased making payments under the Helicon Lease. The principal amount outstanding is \$84,017.16. To date, Helicon has not made a demand for payment or instituted a suit for collection on the Helicon Lease.

#### **FUTURE FINANCINGS**

At this time the Academy has no plans for future long-term financings.

#### **FEDERAL/STATE FUNDING**

Public school academy students are similar to public school students with respect to eligibility for federal entitlement programs. A public school academy may receive federal grant funds directly from the Michigan Department of Education by following the same procedures that local school districts are required to follow. Federal funding represents approximately 9% of the Academy's current fiscal year's annual revenue.

#### **BUDGET PROCESS AND INFORMATION**

The Academy's Board of Directors is responsible for establishing, approving and amending an annual budget in accordance with the Uniform Budgeting and Accounting Act, M.C.L. 141.421, et. seq. The Academy's Board of Directors must submit to the BMCC Charter Schools Office a copy of its annual budget for the upcoming fiscal year in accordance with the Master Calendar of Reporting Requirements. The budget must detail budgeted expenditures at the object level as described in the Michigan Department of Education's Michigan School Accounting Manual. The Academy's Board of Directors is also responsible for approving all revisions and amendments to the annual budget.

#### **2007-2008 BUDGET**

Set forth below in Table 9 is the approved budget for the Academy's General Fund for its fiscal year ended June 30, 2008.

**Table 9**  
**Crescent Academy General Fund Budget**  
**Fiscal Year 2007-2008**

**Revenue:**

Local	\$ 38,400
State	2,425,258
Federal	147,542
From ISD	24,000
Incoming Transfers & Other Transactions	0
<b>Total Revenues and Other Transactions</b>	<b>\$2,635,200</b>

**Expenditures:**

**Instruction:**

Basic Programs	790,500
Added Needs	262,814

**Support Services:**

Pupil Services	44,263
Improvement of Instruction	25,402
General Administration	307,891
School Administration	287,611
Business	145,700
Operations and Maintenance	257,970
Transportation	221,791
Support Services Technology	24,500
Pupil Accounting	1,500

<b>Community Services</b>	<b>10,553</b>
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<b>Outgoing Transfers and Other Transactions</b>	<b><u>274,066</u></b>
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<b>Total Appropriated</b>	<b>\$2,654,561</b>
<b>Excess Revenues Over (Under)</b>	
<b>Expenditures</b>	<b>(19,361)</b>
<b>Fund Balance, July 1 (Audited)</b>	<b><u>34,325</u></b>
<b>Ending Fund Balance (Unaudited)</b>	<b><u>14,964</u></b>

## DEBT SERVICE AND COVERAGE

The following table shows the debt service and projected state aid coverage for the Bonds:

**Table 10**  
**Net Debt Service Schedule and Projected State Aid Coverage**

### Estimated State School Aid Coverage Analysis (20% of Annual State Aid Received)\*

Date	Principal	Interest	Total Principal & Interest	On- Going Expenses	Total Annual Debt Service	Coverage	20% of Gross State School Aid	Gross State School Aid***	State School Aid Per Pupil**	Blended Pupil Count****
10/01/2008	-	-	-	-	-		457,470	2,287,350	7,475	306
10/01/2009	5,000	261,956	266,956	4,600	271,556	1.68	457,470	2,287,350	7,475	306
10/01/2010	40,000	223,650	263,650	4,600	268,250	1.71	457,470	2,287,350	7,475	306
10/01/2011	45,000	220,850	265,850	4,598	270,448	1.69	457,470	2,287,350	7,475	306
10/01/2012	50,000	217,700	267,700	4,578	272,278	1.68	457,470	2,287,350	7,475	306
10/01/2013	50,000	214,200	264,200	4,555	268,755	1.70	457,470	2,287,350	7,475	306
10/01/2014	55,000	210,700	265,700	4,530	270,230	1.69	457,470	2,287,350	7,475	306
10/01/2015	60,000	206,850	266,850	4,505	271,355	1.69	457,470	2,287,350	7,475	306
10/01/2016	65,000	202,650	267,650	4,478	272,128	1.68	457,470	2,287,350	7,475	306
10/01/2017	70,000	198,100	268,100	4,448	272,548	1.68	457,470	2,287,350	7,475	306
10/01/2018	75,000	193,200	268,200	4,415	272,615	1.68	457,470	2,287,350	7,475	306
10/01/2019	80,000	187,950	267,950	4,380	272,330	1.68	457,470	2,287,350	7,475	306
10/01/2020	85,000	182,350	267,350	4,343	271,693	1.68	457,470	2,287,350	7,475	306
10/01/2021	90,000	176,400	266,400	4,303	270,703	1.69	457,470	2,287,350	7,475	306
10/01/2022	95,000	170,100	265,100	4,260	269,360	1.70	457,470	2,287,350	7,475	306
10/01/2023	105,000	163,450	268,450	4,215	272,665	1.68	457,470	2,287,350	7,475	306
10/01/2024	110,000	156,100	266,100	4,168	270,268	1.69	457,470	2,287,350	7,475	306
10/01/2025	120,000	148,400	268,400	4,115	272,515	1.68	457,470	2,287,350	7,475	306
10/01/2026	125,000	140,000	265,000	4,060	269,060	1.70	457,470	2,287,350	7,475	306
10/01/2027	135,000	131,250	266,250	4,000	270,250	1.69	457,470	2,287,350	7,475	306
10/01/2028	145,000	121,800	266,800	3,938	270,738	1.69	457,470	2,287,350	7,475	306
10/01/2029	155,000	111,650	266,650	3,870	270,520	1.69	457,470	2,287,350	7,475	306
10/01/2030	165,000	100,800	265,800	3,798	269,598	1.70	457,470	2,287,350	7,475	306
10/01/2031	175,000	89,250	264,250	3,720	267,970	1.71	457,470	2,287,350	7,475	306
10/01/2032	190,000	77,000	267,000	3,638	270,638	1.69	457,470	2,287,350	7,475	306
10/01/2033	205,000	63,700	268,700	3,550	272,250	1.68	457,470	2,287,350	7,475	306
10/01/2034	220,000	49,350	269,350	3,455	272,805	1.68	457,470	2,287,350	7,475	306
10/01/2035	235,000	33,950	268,950	3,353	272,303	1.68	457,470	2,287,350	7,475	306
10/01/2036	250,000	17,500	267,500	3,243	270,743	1.69	457,470	2,287,350	7,475	306
Total	3,200,000	4,270,856	7,470,856	115,710	7,586,566					

\* Preliminary, Subject to Change

\*\* Assumes No Increase in State School Aid Foundation Per Pupil

\*\*\* Gross State School Aid Previous 12 Month Period Ending August 20.

\*\*\*\* Projected "Flat-Lined" Blended Pupil Count

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## **APPENDIX B**

### **FORECASTED FINANCIAL STATEMENTS FOR THE ACADEMY FOR THE YEARS ENDED JUNE 30, 2009 THROUGH JUNE 30, 2013**

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**Crescent Academy**  
**Southfield, Michigan**

**Forecasted Financial Statements**

**June 30, 2009 through 2013**

CROSKEY, LANNI & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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## C O N T E N T S

	<u>Page</u>
<b>Accountant's Examination Report</b>	1
<b>Forecasted Financial Statements</b>	
Forecasted basic financial statements	2 - 31
Summary of significant forecast assumptions	32 - 38



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David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA  
Clifton F. Powell Jr., CPA

### **To the Board of Directors of Crescent Academy**

We have examined the accompanying forecasted financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crescent Academy as of June 30, 2009 through 2013, and for the years then ending.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

*Croskey, Lanni & Company, P.C.*  
Croskey, Lanni & Company, P.C.

July 18, 2008  
Rochester, Michigan

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED NET ASSETS  
JUNE 30, 2009  
See Accountant's Examination Report

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 483,343
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total current assets	955,957

**Property, Furniture and Equipment**

At cost less accumulated depreciation of \$566,937	5,096,799
--	-----------

**Other Assets**

Investments	269,350
Capitalized loan costs less accumulated amortization of \$10,714	<u>289,286</u>
Total other assets	<u>558,636</u>
Total assets	<u><u>\$ 6,611,392</u></u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 354,243
Notes payable	815,000
Other accrued expenses	68,349
Long-term debt and capital leases - current portion	<u>5,000</u>
Total current liabilities	1,242,592

**Long-Term Debt and Capital Leases - Long-Term Portion**

3,245,000

**Net Assets**

Invested in capital assets, net of related debt	1,846,799
Unrestricted	<u>277,001</u>
Total net assets	<u>2,123,800</u>
Total liabilities and net assets	<u><u>\$ 6,611,392</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2009  
See Accountant's Examination Report

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 838,444	\$ -	\$ 171,542	\$ (666,902)
Special education	93,420	-	-	(93,420)
Compensatory education	218,785	-	-	(218,785)
Student services	35,000	-	-	(35,000)
General administration	96,500	-	-	(96,500)
Executive administration	171,649	-	-	(171,649)
School administration	297,864	-	-	(297,864)
Business support services	159,835	-	-	(159,835)
Lunch program	17,500	-	-	(17,500)
Operations and maintenance	242,282	-	-	(242,282)
Transportation services	265,855	-	-	(265,855)
Support services - central	13,500	-	-	(13,500)
Community services	14,472	-	-	(14,472)
Unallocated depreciation	162,708	-	-	(162,708)
Unallocated amortization	10,714	-	-	(10,714)
Unallocated interest	<u>217,561</u>	<u>-</u>	<u>-</u>	<u>(217,561)</u>
Total primary government	<u>\$ 2,856,089</u>	<u>\$ -</u>	<u>\$ 171,542</u>	<u>(2,684,547)</u>
<b>General purpose revenues:</b>				
State school aid - unrestricted				2,556,578
Miscellaneous				<u>33,500</u>
Total general purpose revenues				2,590,078
<b>Extraordinary items</b>				
Gain on extinguishment of debt				<u>3,539,907</u>
Excess of revenues over expenses				3,445,438
Net assets - July 1, 2008				<u>(1,321,638)</u>
Net assets - June 30, 2009				<u><u>\$ 2,123,800</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED FINANCIAL POSITION  
JUNE 30, 2009  
See Accountant's Examination Report

**ASSETS**

	<u>General</u>
Cash and cash equivalents	\$ 483,343
Investments	269,350
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total assets	<u>\$ 1,225,307</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 354,243
Notes payable	815,000
Other accrued expenses	<u>12,349</u>
Total liabilities	1,181,592
<b>Fund Balances</b>	
Unreserved:	
Undesignated	<u>43,715</u>
Total liabilities and fund balances	<u>\$ 1,225,307</u>

**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2009  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	\$ 43,715
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$5,953,022 and the accumulated depreciation and amortization is \$566,937.	5,386,085
Interest is not payable until due in governmental activities, and, therefore is not recorded in the funds.	(56,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,250,000)</u>
<b>Net Assets of Governmental Activities</b>	<u>\$ 2,123,800</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

COMBINED STATEMENT OF FORECASTED REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDING JUNE 30, 2009  
See Accountant's Examination Report

	<u>General</u>
<b>Revenues</b>	
Local sources	\$ 33,500
State sources	2,556,578
Federal sources	<u>171,542</u>
Total revenues	2,761,620
<b>Expenditures</b>	
Elementary school	838,444
Special education	93,420
Compensatory education	218,785
Student services	35,000
General administration	96,500
Executive administration	171,649
School administration	297,864
Business support services	459,835
Lunch program	17,500
Operations and maintenance	242,282
Transportation services	265,855
Support services - central	13,500
Community services	14,472
Capital outlay	50,000
Debt principal and interest	<u>3,166,679</u>
Total expenditures	<u>5,981,785</u>
Deficiency of revenues over expenditures	<u>(3,220,165)</u>
<b>Other Financing Sources (Uses)</b>	
Proceeds from long-term debt	<u>3,250,000</u>
Excess of revenues and other financing sources over expenditures and other uses	29,835
Fund balance - July 1, 2008	<u>13,880</u>
Fund balance - June 30, 2009	<u><u>\$ 43,715</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2009  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of activities are different because:

**Net Change in Fund Balances - Total Governmental Funds** \$ 29,835

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays were exceeded by depreciation and amortization in the current period:

Capital outlay	\$ 50,000	
Loan issuance costs	300,000	
Loss on disposal of intangible asset	(544,975)	
Amortization and depreciation expense	<u>(173,422)</u>	(368,397)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principle is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Proceeds from long-term debt	\$ (3,250,000)	
Interest expense	(56,000)	
Extinguishment of long-term debt	<u>7,090,000</u>	<u>3,784,000</u>

**Change in Net Assets of Governmental Activities** \$ 3,445,438

See notes to the financial statements, which includes significant forecast assumptions and accounting policies



**CRESCENT ACADEMY**

STATEMENT OF FORECASTED NET ASSETS  
JUNE 30, 2010  
See Accountant's Examination Report

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 604,931
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total current assets	1,077,545

**Property, Furniture and Equipment**

At cost less accumulated depreciation of \$729,645	4,934,091
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**Other Assets**

Investments	269,350
Capitalized loan costs less accumulated amortization of \$21,428	<u>278,572</u>
Total other assets	<u>547,922</u>
Total assets	<u><u>\$ 6,559,558</u></u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 354,243
Other accrued expenses	68,349
Notes payable	815,000
Long-term debt and capital leases - current portion	<u>40,000</u>
Total current liabilities	1,277,592

**Long-Term Debt and Capital Leases - Long-Term Portion**

3,205,000

**Net Assets**

Invested in capital assets, net of related debt	1,689,091
Unrestricted	<u>387,875</u>
Total net assets	<u>2,076,966</u>
Total liabilities and net assets	<u><u>\$ 6,559,558</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2010  
See Accountant's Examination Report

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 862,201	\$ -	\$ 171,542	\$ (690,659)
Special education	97,098	-	-	(97,098)
Compensatory education	218,785	-	-	(218,785)
Student services	35,000	-	-	(35,000)
General administration	66,500	-	-	(66,500)
Executive administration	169,845	-	-	(169,845)
School administration	305,660	-	-	(305,660)
Business support services	156,157	-	-	(156,157)
Lunch program	17,500	-	-	(17,500)
Operations and maintenance	247,200	-	-	(247,200)
Transportation services	271,025	-	-	(271,025)
Support services - central	13,500	-	-	(13,500)
Community services	14,472	-	-	(14,472)
Unallocated depreciation	162,708	-	-	(162,708)
Unallocated amortization	10,714	-	-	(10,714)
Unallocated interest	<u>235,430</u>	<u>-</u>	<u>-</u>	<u>(235,430)</u>
Total primary government	<u><u>\$ 2,883,795</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 171,542</u></u>	<u><u>(2,712,253)</u></u>
<b>General purpose revenues:</b>				
State school aid - unrestricted				2,631,919
Miscellaneous				<u>33,500</u>
Total general purpose revenues				<u>2,665,419</u>
Excess of expenses over revenues				(46,834)
Net assets - July 1, 2009				<u>2,123,800</u>
Net assets - June 30, 2010				<u><u>\$ 2,076,966</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED FINANCIAL POSITION  
JUNE 30, 2010  
See Accountant's Examination Report

**ASSETS**

	<u>General</u>
Cash and cash equivalents	\$ 604,931
Investments	269,350
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total assets	<u>\$ 1,346,895</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 354,243
Other accrued expenses	12,349
Notes payable	<u>815,000</u>
Total liabilities	1,181,592
<b>Fund Balances</b>	
Unreserved:	
Undesignated	<u>165,303</u>
Total liabilities and fund balances	<u>\$ 1,346,895</u>

**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2010  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	\$ 165,303
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$5,963,736 and the accumulated depreciation and amortization is \$751,073.	5,212,663
Interest is not payable until due in governmental activities, and, therefore is not recorded in the funds.	(56,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,245,000)</u>
<b>Net Assets of Governmental Activities</b>	<u>\$ 2,076,966</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

COMBINED STATEMENT OF FORECASTED REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDING JUNE 30, 2010  
See Accountant's Examination Report

	<u>General</u>
<b>Revenues</b>	
Local sources	\$ 33,500
State sources	2,631,919
Federal sources	<u>171,542</u>
Total revenues	2,836,961
<b>Expenditures</b>	
Elementary school	862,201
Special education	97,098
Compensatory education	218,785
Student services	35,000
General administration	66,500
Executive administration	169,845
School administration	305,660
Business support services	156,157
Lunch program	17,500
Operations and maintenance	247,200
Transportation services	271,025
Support services - central	13,500
Community services	14,472
Debt principal and interest	<u>240,430</u>
Total expenditures	<u>2,715,373</u>
Excess of revenues over expenditures	121,588
Fund balance - July 1, 2009	<u>43,715</u>
Fund balance - June 30, 2010	<u>\$ 165,303</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2010  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of activities are different because:

**Net Change in Fund Balances - Total Governmental Funds** \$ 121,588

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays were exceeded by depreciation and amortization in the current period:

Amortization and depreciation expense (173,422)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principle is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of long-term debt 5,000

**Change in Net Assets of Governmental Activities** \$ (46,834)

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED NET ASSETS  
JUNE 30, 2011  
See Accountant's Examination Report

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 689,309
Due from other governmental units	424,087
Prepaid expenses	48,527
Total current assets	1,161,923

**Property, Furniture and Equipment**

At cost less accumulated depreciation of \$892,353	4,771,383
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**Other Assets**

Investments	269,350
Capitalized loan costs less accumulated amortization of \$32,142	267,858
Total other assets	537,208
Total assets	<u>\$ 6,470,514</u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 354,243
Other accrued expenses	68,349
Notes payable	815,000
Long-term debt and capital leases - current portion	45,000
Total current liabilities	1,282,592

**Long-Term Debt and Capital Leases - Long-Term Portion**

3,160,000

**Net Assets**

Invested in capital assets, net of related debt	1,566,383
Unrestricted	461,539
Total net assets	2,027,922
Total liabilities and net assets	<u>\$ 6,470,514</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2011  
See Accountant's Examination Report

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 886,156	\$ -	\$ 171,542	\$ (714,614)
Special education	97,098	-	-	(97,098)
Compensatory education	218,785	-	-	(218,785)
Student services	35,000	-	-	(35,000)
General administration	61,500	-	-	(61,500)
Executive administration	170,588	-	-	(170,588)
School administration	313,690	-	-	(313,690)
Business support services	156,157	-	-	(156,157)
Lunch program	17,500	-	-	(17,500)
Operations and maintenance	247,832	-	-	(247,832)
Transportation services	271,200	-	-	(271,200)
Support services - central	13,500	-	-	(13,500)
Community services	14,472	-	-	(14,472)
Unallocated depreciation	162,708	-	-	(162,708)
Unallocated amortization	10,714	-	-	(10,714)
Unallocated interest	233,855	-	-	(233,855)
Total primary government	<u>\$ 2,910,755</u>	<u>\$ -</u>	<u>\$ 171,542</u>	<u>(2,739,213)</u>
<b>General purpose revenues:</b>				
State school aid - unrestricted				2,656,669
Miscellaneous				33,500
Total general purpose revenues				<u>2,690,169</u>
Excess of expenses over revenues				(49,044)
Net assets - July 1, 2010				2,076,966
Net assets - June 30, 2011				<u>\$ 2,027,922</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED FINANCIAL POSITION  
JUNE 30, 2011  
See Accountant's Examination Report

**ASSETS**

	<b>General</b>
Cash and cash equivalents	\$ 689,309
Investments	269,350
Due from other governmental units	424,087
Prepaid expenses	48,527
	<hr/>
Total assets	\$ 1,431,273

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 354,243
Notes payable	815,000
Other accrued expenses	12,349
	<hr/>
Total liabilities	1,181,592
<b>Fund Balances</b>	
Unreserved:	
Undesignated	249,681
	<hr/>
Total liabilities and fund balances	\$ 1,431,273

**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	\$ 249,681
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$5,963,736 and the accumulated depreciation and amortization is \$924,495.	5,039,241
Interest is not payable until due in governmental activities, and, therefore is not recorded in the funds.	(56,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(3,205,000)
	<hr/>
<b>Net Assets of Governmental Activities</b>	\$ 2,027,922

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

## CRESCENT ACADEMY

COMBINED STATEMENT OF FORECASTED REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDING JUNE 30, 2011  
See Accountant's Examination Report

	General
<b>Revenues</b>	
Local sources	\$ 33,500
State sources	2,656,669
Federal sources	171,542
Total revenues	2,861,711
<b>Expenditures</b>	
Elementary school	886,156
Special education	97,098
Compensatory education	218,785
Student services	35,000
General administration	61,500
Executive administration	170,588
School administration	313,690
Business support services	156,157
Lunch program	17,500
Operations and maintenance	247,832
Transportation services	271,200
Support services - central	13,500
Community services	14,472
Debt principal and interest	273,855
Total expenditures	2,777,333
Excess of revenues over expenditures	84,378
Fund balance - July 1, 2010	165,303
Fund balance - June 30, 2011	\$ 249,681

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

## CRESCENT ACADEMY

FORECASTED RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2011  
See Accountant's Examination Report

Net Change in Fund Balances - Total Governmental Funds \$ 84,378

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays were exceeded by depreciation and amortization in the current period.

Amortization and depreciation expense (173,422)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligation is as follows:

Repayment of long-term debt 40,000

Change in Net Assets of Governmental Activities \$ (49,044)

See notes to the financial statements, which includes significant forecast assumptions and accounting policies



**CRESCENT ACADEMY**

STATEMENT OF FORECASTED NET ASSETS  
JUNE 30, 2012  
See Accountants Examination Report

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 756,232
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total current assets	1,228,846

**Property, Furniture and Equipment**

At cost less accumulated depreciation of \$1,055,061	4,608,675
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**Other Assets**

Investments	269,350
Capitalized loan costs less accumulated amortization of \$42,856	<u>257,144</u>
Total other assets	<u>526,494</u>
Total assets	<u><u>\$ 6,364,015</u></u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 354,243
Notes payable	815,000
Other accrued expenses	68,349
Long-term debt and capital leases - current portion	<u>50,000</u>
Total current liabilities	1,287,592

**Long-Term Debt and Capital Leases - Long-Term Portion**

3,110,000

**Net Assets**

Invested in capital assets, net of related debt	1,448,675
Unrestricted	<u>517,748</u>
Total net assets	<u>1,966,423</u>
Total liabilities and net assets	<u><u>\$ 6,364,015</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2012  
See Accountants Examination Report

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenues and Changes in Net Assets
				Government Type Activities
Elementary school	\$ 915,830	\$ -	\$ 171,542	\$ (744,288)
Special education	97,098	-	-	(97,098)
Compensatory education	218,785	-	-	(218,785)
Student services	35,000	-	-	(35,000)
General administration	60,500	-	-	(60,500)
Executive administration	171,330	-	-	(171,330)
School administration	321,960	-	-	(321,960)
Business support services	156,157	-	-	(156,157)
Lunch program	17,500	-	-	(17,500)
Operations and maintenance	248,471	-	-	(248,471)
Transportation services	271,380	-	-	(271,380)
Support services - central	13,500	-	-	(13,500)
Community services	14,472	-	-	(14,472)
Unallocated depreciation	162,708	-	-	(162,708)
Unallocated amortization	10,714	-	-	(10,714)
Unallocated interest	<u>232,555</u>	<u>-</u>	<u>-</u>	<u>(232,555)</u>
Total primary government	<u><u>\$ 2,947,960</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 171,542</u></u>	<u><u>(2,776,418)</u></u>

**General purpose revenues:**

State school aid - unrestricted	2,681,419
Miscellaneous	<u>33,500</u>
Total general purpose revenues	<u>2,714,919</u>
Excess of expenses over revenues	(61,499)
Net assets - July 1, 2011	<u>2,027,922</u>
Net assets - June 30, 2012	<u><u>\$ 1,966,423</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED FINANCIAL POSITION  
JUNE 30, 2012  
See Accountant's Examination Report

**ASSETS**

	<u>General</u>
Cash and cash equivalents	\$ 756,232
Investments	269,350
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total assets	<u><u>\$ 1,498,196</u></u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 354,243
Notes payable	815,000
Other accrued expenses	<u>12,349</u>
Total liabilities	1,181,592
<b>Fund Balances</b>	
Unreserved:	
Undesignated	<u>316,604</u>
Total liabilities and fund balances	<u><u>\$ 1,498,196</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies



**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2012  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	\$ 316,604
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$5,963,736 and the accumulated depreciation and amortization is \$1,097,917.	4,865,819
Interest is not payable until due in governmental activities, and, therefore is not recorded in the funds.	(56,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,160,000)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 1,966,423</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies



**CRESCENT ACADEMY**

COMBINED STATEMENT OF FORECASTED REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDING JUNE 30, 2012  
See Accountant's Examination Report

	<u>General</u>
<b>Revenues</b>	
Local sources	\$ 33,500
State sources	2,681,419
Federal sources	<u>171,542</u>
Total revenues	2,886,461
<b>Expenditures</b>	
Elementary school	915,830
Special education	97,098
Compensatory education	218,785
Student services	35,000
General administration	60,500
Executive administration	171,330
School administration	321,960
Business support services	156,157
Lunch program	17,500
Operations and maintenance	248,471
Transportation services	271,380
Support services - central	13,500
Community services	14,472
Debt principal and interest	<u>277,555</u>
Total expenditures	<u>2,819,538</u>
Excess of revenues over expenditures	66,923
Fund balance - July 1, 2011	<u>249,681</u>
Fund balance - June 30, 2012	<u>\$ 316,604</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies  
- 24 -



**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2012  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 66,923
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were exceeded by depreciation and amortization in the current period:

Amortization and depreciation expense	(173,422)
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The governmental funds report loan proceeds as an other financing source, while repayment of loan principle is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of long term debt	<u>45,000</u>
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<b>Change in Net Assets of Governmental Activities</b>	<u>\$ (61,499)</u>
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See notes to the financial statements, which includes significant forecast assumptions and accounting policies  
- 25 -



**CRESCENT ACADEMY**

STATEMENT OF FORECASTED NET ASSETS  
JUNE 30, 2013  
See Accountants Examination Report

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 812,398
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total current assets	1,285,012

**Property, Furniture and Equipment**

At cost less accumulated depreciation of \$1,217,769	4,445,967
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**Other Assets**

Investments	269,350
Capitalized loan costs less accumulated amortization of \$53,570	<u>246,430</u>
Total other assets	<u>515,780</u>
Total assets	<u>\$ 6,246,759</u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 354,243
Notes payable	815,000
Other accrued expenses	68,349
Long-term debt and capital leases - current portion	<u>50,000</u>
Total current liabilities	1,287,592

**Long-Term Debt and Capital Leases - Long-Term Portion**

3,060,000

**Net Assets**

Invested in capital assets, net of related debt	1,335,967
Unrestricted	<u>563,200</u>
Total net assets	<u>1,899,167</u>
Total liabilities and net assets	<u>\$ 6,246,759</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2013  
See Accountants Examination Report

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 941,244	\$ -	\$ 171,542	\$ (769,702)
Special education	97,098	-	-	(97,098)
Compensatory education	218,785	-	-	(218,785)
Student services	35,000	-	-	(35,000)
General administration	60,500	-	-	(60,500)
Executive administration	172,073	-	-	(172,073)
School administration	330,479	-	-	(330,479)
Business support services	156,157	-	-	(156,157)
Lunch program	17,500	-	-	(17,500)
Operations and maintenance	249,116	-	-	(249,116)
Transportation services	271,566	-	-	(271,566)
Support services - central	13,500	-	-	(13,500)
Community services	14,472	-	-	(14,472)
Unallocated depreciation	162,708	-	-	(162,708)
Unallocated amortization	10,714	-	-	(10,714)
Unallocated interest	<u>227,555</u>	<u>-</u>	<u>-</u>	<u>(227,555)</u>
Total primary government	<u>\$ 2,978,467</u>	<u>\$ -</u>	<u>\$ 171,542</u>	<u>(2,806,925)</u>
<b>General purpose revenues:</b>				
State school aid - unrestricted				2,706,169
Miscellaneous				<u>33,500</u>
Total general purpose revenues				<u>2,739,669</u>
Excess of expenses over revenues				(67,256)
Net assets - July 1, 2011				<u>1,966,423</u>
Net assets - June 30, 2012				<u>\$ 1,899,167</u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

STATEMENT OF FORECASTED FINANCIAL POSITION  
JUNE 30, 2013  
See Accountant's Examination Report

**ASSETS**

	<u>General</u>
Cash and cash equivalents	\$ 812,398
Investments	269,350
Due from other governmental units	424,087
Prepaid expenses	<u>48,527</u>
Total assets	<u><u>\$ 1,554,362</u></u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 354,243
Notes payable	815,000
Other accrued expenses	<u>12,349</u>
Total liabilities	1,181,592
<b>Fund Balances</b>	
Unreserved:	
Undesignated	<u>372,770</u>
Total liabilities and fund balances	<u><u>\$ 1,554,362</u></u>

**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	\$ 372,770
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$5,963,736 and the accumulated depreciation and amortization is \$1,271,339.	4,692,397
Interest is not payable until due in governmental activities, and, therefore is not recorded in the funds.	(56,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,110,000)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 1,899,167</u></u>

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**

COMBINED STATEMENT OF FORECASTED REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - GENERAL AND DEBT SERVICE FUNDS  
FOR THE YEAR ENDING JUNE 30, 2013  
See Accountant's Examination Report

	<u>General</u>
<b>Revenues</b>	
Local sources	\$ 33,500
State sources	2,706,169
Federal sources	<u>171,542</u>
Total revenues	2,911,211
<b>Expenditures</b>	
Elementary school	941,244
Special education	97,098
Compensatory education	218,785
Student services	35,000
General administration	60,500
Executive administration	172,073
School administration	330,479
Business support services	156,157
Lunch program	17,500
Operations and maintenance	249,116
Transportation services	271,566
Support services - central	13,500
Community services	14,472
Debt principal and interest	<u>277,555</u>
Total expenditures	<u>2,855,045</u>
Excess of revenues over expenditures	56,166
Fund balance - July 1, 2011	<u>316,604</u>
Fund balance - June 30, 2012	<u>\$ 372,770</u>

**CRESCENT ACADEMY**

FORECASTED RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2013  
See Accountant's Examination Report

Amounts reported for governmental activities in the statement of activities are different because:

**Net Change in Fund Balances - Total Governmental Funds** \$ 56,166

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were exceeded by depreciation and amortization in the current period.

Amortization and depreciation expense (173,422)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of long term debt 50,000

**Change in Net Assets of Governmental Activities** \$ (67,256)

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

See notes to the financial statements, which includes significant forecast assumptions and accounting policies

**CRESCENT ACADEMY**  
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS  
FOR THE YEARS ENDING JUNE 30, 2009 THROUGH 2013

**NOTE 1 - Nature of Limitations of Forecasts**

The accompanying forecasted financial statements present, to the best of management's knowledge and belief, Crescent Academy's financial position as of June 30, 2009 through 2013, and the results of its operations for the years ending June 30, 2009 through 2013. The forecasted statements reflect management's judgment as of July 18, 2008, the date of these forecasts, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. Because events and circumstances frequently do not occur as expected, there will usually be differences between the forecasted and actual results; those differences may be material.

The forecasted financial statements present, to the best of management's knowledge and belief the effects on the financial conditions of the Academy after the issuance of certificates of participation and the use of those proceeds to construct a facility. These projections are designed to provide the Academy with information to analyze the effect of the refinance as described above. Accordingly these projections may not be useful for other purposes.

**NOTE 2 - Summary of Significant Accounting Policies**

The accounting policies of Crescent Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

**Reporting Entity**

Crescent Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on February 11, 2004 and began operation in July 2004.

The Academy entered into a contract with Bay Mills Community College's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The Community College's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Bay Mills Community College's Board of Trustees three percent of state aid as administrative fees.

The Academy entered into an agreement with CS Partners, LLC, "CSP". Under the terms of this agreement, CSP provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay CSP eleven percent of its state school aid revenue.

The accompanying forecasted financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

**CRESCENT ACADEMY**  
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS  
FOR THE YEARS ENDING JUNE 30, 2009 THROUGH 2013

**NOTE 2 - Summary of Significant Accounting Policies - Continued**

**Fund Financial Statements**

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has elected to designate all of its funds as major.

**Basis of Presentation - Fund Accounting**

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into governmental types as follows:

**Governmental Funds**

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

**General Fund** - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and so recognized as revenue in accordance with state law. A major portion of the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.



**CRESCENT ACADEMY****SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS  
FOR THE YEARS ENDING JUNE 30, 2009 THROUGH 2013****NOTE 2 - Summary of Significant Accounting Policies - Continued****Government Wide Financial Statements**

The government-wide forecasted financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide forecasted financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund forecasted financial statements are prepared. Therefore, governmental fund forecasted financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally, imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held investments in mutual funds that invest solely in U.S. Treasury obligations. The funds are held in trust for debt service and capital projects. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**CRESCENT ACADEMY****SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS  
FOR THE YEARS ENDING JUNE 30, 2009 THROUGH 2013****NOTE 2 - Summary of Significant Accounting Policies - Continued****Receivables**

Receivables consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collectable and are considered current for the purposes of these basic forecasted financial statements.

**Prepaid Assets**

Payments made to vendors for services that will benefit periods beyond the current period ending, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy defines capital assets as those with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	5 - 15 years
Computers and software	3 - 10 years

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide forecasted financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund forecasted financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund forecasted financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund forecasted financial statements until due.

## CRESCENT ACADEMY

### SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS FOR THE YEARS ENDING JUNE 30, 2009 THROUGH 2013

#### NOTE 2 - Summary of Significant Accounting Policies - Continued

##### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

In the fund financial statements, governmental funds report reservations of fund balance of amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

##### Estimates

The preparation of forecasted financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the forecasted financial statements and accompanying notes. Actual results may differ from those estimates.

The accompanying forecasted financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

#### NOTE 3 - Budgets

The Academy is required by state law to adopt annual budgets for the general fund and debt service fund. Budgets are prepared on the modified accrual basis of accounting, which is consistent with the generally accepted accounting principles ("GAAP").

The Academy is forecasting substantial decreases in debt service requirements during the years ending June 30, 2009 through 2013 due to the refinancing of Certificates of Participation. The Academy anticipates a stabilization of its cash flow as a result of this refinance. As a result, General fund budgets have been prepared in accordance with this objective.

## CRESCENT ACADEMY

### SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS FOR THE YEARS ENDING JUNE 30, 2009 THROUGH 2013

#### NOTE 4 - Revenues

The Academy's revenue consists primarily of state aid payments. Annual state aid is calculated based on a per student allocation per year. The number of students is calculated annually based on a blended count. The blended count is determined by the size of the student body in the spring of the prior year taken at 25% plus the size of the student body in the fall of the current year taken at 75%. The expected amounts paid per student and expected size of the student body per year in accordance with the blended count is as follows:

	State Aid	Number of Students
2009	\$ 7,545	325
2010	7,620	330
2011	7,695	330
2012	7,770	330
2013	7,845	330

The Academy has forecasted the above student numbers as attainable based upon the efforts of the new management team. The school plans to increase the amounts being spent on advertising as well as other community campaigns to increase the number of students from the current count of 306 in the year ended June 30, 2008. The Academy is also assuming an annual increase of \$75 to their foundation allowance from the State of Michigan. Over the five years ending June 30, 2013 state school aid payments account for between 92% to 95% of total operating income. If these increased enrollment figures are not met, it could materially affect the forecasted financial statements.

The assumption discussed is that which management believes is significant and is based on management's judgment at the date of the presentation.

#### NOTE 5 - Expenses

Substantially all expenses forecasted through 2013 are based upon the experience of the Academy's management company and their experience with similar schools. Expenses reflect projected increases in student counts and inflationary considerations.

## **CRESCENT ACADEMY**

### **SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS FOR THE YEARS ENDING JUNE 30, 2009 THROUGH 2013**

#### **NOTE 6 - Debt Service**

The Academy is refinancing a Certificates of Participation (COP) issuance originally dated December 1, 2006. The issuance was for \$7,090,000 and was to be repaid over a thirty year period. Bay Mills Community College, the Authorizer and chartering organization, issued a Notice of Intent to Revoke Crescent's Charter, noting various irregularities with the original issuance. Bay Mills required the Issuance to be unwound if Crescent was to continue as a charter public school academy.

In response to this Intent to Revoke, the Academy undertook negotiations with the owners of the original COP's to refinance the COP in a way that would be acceptable to Bay Mills as well as provide the Academy with a more manageable cash flow.

Under the pending "Settlement, Tender and Release Agreement" the Academy will refinance a portion of its debt into a new Municipal Obligation with a principal amount of \$3,200,000 including interest at 7% payable in semi-annual installments through October 1, 2036. The proceeds of the new Municipal Obligations will be used to pay a portion of the COP's and to pay costs of issuance related thereto. Any amounts that remain outstanding after consummation of the new financing shall be payable solely from third-party recoveries.

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These forecasts have been prepared under the assumption that the debt will be refinanced as listed above. If the pending agreement is not accepted this could materially affect the forecasted financial statements.

## **APPENDIX C**

### **AUDITED FINANCIAL STATEMENTS FOR THE ACADEMY FOR THE YEAR ENDED JUNE 30, 2005 JUNE 30, 2006 AND JUNE 30, 2007**

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NOTE: The financial statements of the Academy, as of and for the year ended June 30, 2005, June 30, 2006 and June 30, 2007, included in this Limited Offering Memorandum have been audited by Darnell & Meyering, P.C., to the extent and for the periods indicated in their report thereon. The Academy requested that Darnell & Meyering, P.C. consent to the inclusion of its report for each such year in this Limited Offering Memorandum, but Darnell & Meyering, P.C. declined to do so. Notwithstanding the foregoing, the Academy is not aware of any facts that would make the audited financial statements misleading.

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**CRESCENT ACADEMY**  
**Report on Financial Statements**  
(with required supplementary and additional information)  
**For the Fiscal Year Ended**  
**June 30, 2005**

**Crescent Academy**  
**Financial Report**  
**For the Fiscal Year Ended**  
**June 30, 2005**

**Table of Contents**

<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements</b>	
Government-wide financial statements	
Statement of Net Assets	10
Statement of Activities	11
Fund financial statements	
Balance Sheet - Governmental Funds	12
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of Statement of Revenues, Expenditures and and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to the Financial Statements	15-25
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	26
<b>Additional Information</b>	
Budgetary Comparison Schedule - Special Revenue Fund Food Service	27
Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	28-29

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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

### Independent Auditors' Report

Board of Directors  
Crescent Academy  
17570 W. 12 Mile Rd.  
Southfield, MI 48076

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

C-2 We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of June 30, 2005 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

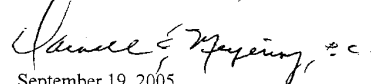
In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2005, on our consideration of Crescent Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crescent Academy's basic financial statements. The additional information on pages 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DARNELL & MEYERING, P.C.

  
September 19, 2005



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Crescent's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. This is the first year of operations for the Academy. In Subsequent years, a comparative analysis will be provided.

### Financial Highlights

- The Academy's fund balance after their first year of operations is \$77,988.
- Blended enrollment used for state aid purposes was 173 in June 2005.
- The Academy's capital outlay was \$264,688.
- The Academy maintained its outstanding liabilities.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy.

The first two statements are Academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Crescent Academy Annual Financial Report

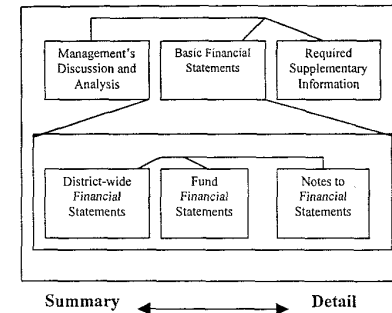


Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-Wide Statements	Fund Financial Statements
Scope	Entire Academy (except fiduciary funds)	Governmental funds
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

#### Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

#### Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has one kind of fund:

Governmental fund – Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

#### Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets were (deficit) \$(9,577) on June 30, 2005. See Figure A - 3.

The total revenues were \$1,619,551. State aid foundation allowance included in revenue from state sources accounts for 75 percent of the Academy's revenue.

The total cost of instruction was \$532,832. Total cost of support services were \$1,009,057.

The Academy's stable financial position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them into line with the Academy's revenue.

#### Academy governmental activities

The stable health of the Academy's finances results from a balance between a weaker economy resulting in less state and other revenue and offset by the management of expenses. The school board oversaw the Academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

Figure A-3 Crescent Academy	
	2005
Current assets	\$ 816,196
Capital assets	237,435
Total assets	1,053,631
Current liabilities	835,949
Noncurrent liabilities	227,259
Net assets:	
Invested in capital assets, net of related debt	28,230
Unrestricted	(37,807)
Total net assets (Deficit)	\$ (9,577)

Figure A-4  
Changes in Crescent Academy's Net Assets

	2005
Revenues:	
Program revenues:	
Federal and state categorical grants	\$ 347,665
General revenues:	
State aid - unrestricted	1,260,962
Investment	542
Charges for services	5,099
Other	5,283
Total revenues	1,619,551
Expenses:	
Instruction	532,832
Support services	1,009,057
Food services	26,407
Interest expense	33,579
Unallocated depreciation	27,253
Total expenses	1,629,128
Change in net assets (Deficit)	\$ (9,577)

#### Financial analysis of the Academy's funds

The stable financial performance of the Academy as a whole is reflected in its governmental fund. As the Academy completed the year, its governmental funds (general) reported a fund balance of \$77,988.

#### General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes, instructional and utility costs) since the original budget was adopted.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures by \$10,033, the actual results for the year showed revenues over expenditures of \$77,988.

## Capital asset and debt administration

### Capital assets

By the end of the year ended June 30, 2005, the Academy had invested \$237,435 in capital assets consisting primarily of computers, software, furniture, fixtures and equipment, and leasehold improvements net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$27,253.

The Academy's capital assets are as follows:

Figure A-5 Crescent Academy's Capital Assets			
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 110,141	\$ 21,503	\$ 88,638
Furniture, fixtures and equipment	108,349	4,126	104,223
Leasehold Improvements	46,198	1,624	44,574
Total	<u>\$ 264,688</u>	<u>\$ 27,253</u>	<u>\$ 237,435</u>

### Facilities lease obligation

The Academy paid \$400,000 for facilities lease obligations during the 2005 school year.

### Long-term debt

At year end the Academy had \$325,000 in installment obligations. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

### Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

The 2005-2006 foundation allowance (state aid funding) from the State of Michigan has increased to \$7,175 per student. The foundation allowance represents 75 percent of the total Academy revenue.

### Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 2525 West Jefferson, Trenton, MI 48183.

## Crescent Academy Statement of Net Assets June 30, 2005

Assets	Governmental Activities
<b>Current Assets:</b>	
Cash and equivalents	\$ 451,250
Receivables:	
Accounts Receivable	95,684
Other Governmental Units	265,900
Prepaid Expenses	3,362
<b>Total current assets</b>	<u>816,196</u>
<b>Noncurrent Assets:</b>	
Capital Assets	264,688
Less Accumulated Depreciation	(27,253)
<b>Total noncurrent assets</b>	<u>237,435</u>
<b>Total assets</b>	<u>\$ 1,053,631</u>
<b>Liabilities And Net Assets</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 19,421
Revenue Anticipation Notes	718,787
Current Portion of Long Term Obligations	97,741
<b>Total liabilities</b>	<u>835,949</u>
<b>Noncurrent Liabilities</b>	
Noncurrent Portion of Long Term Obligations	227,259
<b>Total Noncurrent Liabilities</b>	<u>227,259</u>
<b>Net Assets:</b>	
Invested in Capital Assets - Net of Related Debt	28,230
Unrestricted	(37,807)
<b>Total net assets (Deficit)</b>	<u>\$ (9,577)</u>

See notes to financial statements

**Crescent Academy  
Statement of Activities  
Year Ended June 30, 2005**

Functions/programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants & Contributions	Net (expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 532,832	\$ -	336,529	\$ (196,303)
Support Services	1,009,057	-	-	(1,009,057)
Food Services	26,407	5,099	11,136	(10,172)
Interest Expense	33,579	-	-	(33,579)
Unallocated depreciation	27,253	-	-	(27,253)
<b>Total Governmental Activities</b>	<b>\$ 1,629,128</b>	<b>\$ 5,099</b>	<b>\$ 347,665</b>	<b>\$ (1,276,364)</b>
General Revenues:				
State of Michigan School Aid Unrestricted				1,260,962
Investment Revenue				542
Miscellaneous				5,283
<b>Total General Revenues</b>				<b>1,266,787</b>
Change in Net Assets (Deficit)				(9,577)
Net assets, beginning of year				-
Net assets, end of year (Deficit)				<b>\$ (9,577)</b>

See notes to financial statements.

**Crescent Academy  
Balance Sheet  
Governmental Funds  
June 30, 2005**

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
<b>Assets:</b>			
Cash and equivalents	\$ 451,250	\$ -	\$ 451,250
Receivables:			
Accounts Receivable	95,684	-	95,684
Other Governmental Units	265,900	-	265,900
Prepaid Expenses	3,362	-	3,362
<b>Total Assets</b>	<b>\$ 816,196</b>	<b>\$ -</b>	<b>\$ 816,196</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 19,421	\$ -	\$ 19,421
Revenue Anticipation Notes	718,787	-	718,787
<b>Total Liabilities</b>	<b>738,208</b>	<b>-</b>	<b>738,208</b>
<b>Fund Balances:</b>			
Reserved for Prepaid Expenses	3,362	-	3,362
Unreserved, Undesignated	74,626	-	74,626
<b>Total Fund Balances</b>	<b>77,988</b>	<b>-</b>	<b>77,988</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 816,196</b>	<b>\$ -</b>	<b>\$ 816,196</b>
<b>Total Governmental Fund Balances</b>			<b>\$ 77,988</b>
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are financial resources and are not reported in the funds			
The cost of capital assets is		\$ 264,688	
Accumulated depreciation is		(27,253)	
			237,435
Long term liabilities are not due and payable in the current period and are not reported in the funds			
Long term obligations			(325,000)
<b>Net assets of governmental activities</b>			<b>\$ (9,577)</b>

See notes to financial statements.

Crescent Academy  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2005

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Local Sources:			
Fees, Private Sources	\$ 1,100	\$ -	\$ 1,100
Food Service	-	5,099	5,099
Investment Income	542	-	542
Other	4,183	-	4,183
Total Local Revenues	5,825	5,099	10,924
State Sources	1,260,962	-	1,260,962
Federal Sources	336,529	11,136	347,665
Total revenues	1,603,316	16,235	1,619,551
<b>Expenditures:</b>			
Current:			
Instruction			
Basic Programs	688,941	-	688,941
Added Needs	49,960	-	49,960
Total Instruction	738,901	-	738,901
Support Services:			
Instructional Staff	4,251	-	4,251
General Administration	188,257	-	188,257
School Administration	248,884	-	248,884
Business and Fiscal Services	84,398	-	84,398
Operations/maintenance	569,260	-	569,260
Central	6,205	-	6,205
Food Service	-	26,407	26,407
Total Support Services	1,101,255	26,407	1,127,662
Total Expenditures	1,840,156	26,407	1,866,563
Excess (Deficiency) of Revenues Over Expenditures	(236,840)	(10,172)	(247,012)
<b>Other Financing Sources (Uses):</b>			
Operating Transfers in	-	10,172	10,172
Operating Transfers out	(10,172)	-	(10,172)
Financing Proceeds	325,000	-	325,000
Total Other Financing Sources (Uses):	314,828	10,172	325,000
<b>Net Change in Fund Balances</b>	77,988	-	77,988
<b>Fund Balances</b>			
Beginning of Year	-	-	-
End of Year	\$ 77,988	\$ -	\$ 77,988

See notes to financial statements.

Crescent Academy  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
Year Ended June 30, 2005

<b>Net change in fund balances total governmental funds</b>	<b>\$ 77,988</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Capital outlay	264,688
Depreciation expense	(27,253)
Long term liabilities are not due and payable in the current period and are not reported in the funds	(325,000)
<b>Change in net assets of governmental activities</b>	<b>\$ (9,577)</b>

See notes to financial statements

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of Crescent Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

Crescent Academy is a public school academy in its first year of operations. A public school academy is a public school under Section 2 of Article VIII of the State Constitution of 1963 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. The contract with Bay Mills expires on June 30, 2012. Crescent Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements.

**B. Crescent Academy Adoption of New Account Standards**

During the fiscal period 2005, the Academy adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments*, issued June 30, 1999, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and: in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the Academy to prepare a Management's Discussion and Analysis, charter-wide financial statements on an accrual basis and make some changes to the footnotes. Beginning net assets were not effected by the implementation of GASB 34 because this is the first year of operation.

**C. Charter-Wide and Fund Financial Statements**

**Measurement focus, basis of accounting, and financial statement presentation**

**CHARTER-WIDE STATEMENTS**

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide

financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate Academy sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and



CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## FUND BASED STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following non-major fund type;

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

The school service funds are special revenue funds that separate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The school *service fund* maintained by the Academy is the *food service fund*.

### D. Assets, Liabilities and Net Assets or Equity

#### 1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31,

*Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

#### 2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2005 the foundation allowance was based on the pupil membership counts taken in September of 2004 and February of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sale and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30 is reported as state aid receivable.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets include property, plant, and equipment which are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	3-5 years
Furniture, fixtures and equipment	20 years
Leasehold improvements	10-25 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay, which is reported in the function or activity it services. An annual appropriated budget is adopted for the general fund and food service fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund and special revenue funds.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates.

Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.

Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund and special revenue fund.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund.
- F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.
- G. The Academy did not have significant expenditure budget variances.

**Note 3. Deposits and Investments – Credit Risk**

Cash is held in the name of the Academy in the general fund. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. These assessments are performed by the Academy at least annually. As of June 30, 2005, \$351,250 of the Academy's bank balance of \$451,250 was exposed to custodial credit risk because it was not covered by federal depository insurance.

**Note 4. Receivables**

Receivables as of year-end were as follows:

	<u>General</u>
Receivables:	
Accounts	\$ 95,684
State aid	229,371
Federal	<u>36,529</u>
Net total receivables	<u>\$ 361,584</u>

All receivables were deemed collectible as of June 30, 2005.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

Capital Assets Being Depreciated	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Computers	\$ -	\$ 110,141	\$ -	\$ 110,141
Furn, Fixtures & Equipment	-	108,349	-	108,349
Leasehold Improvements	-	46,198	-	46,198
Subtotal	-	264,688	-	264,688
Less Accumulated Depreciation for:				
Computers	-	21,503	-	21,503
Furn, Fixtures & Equipment	-	4,126	-	4,126
Leasehold Improvements	-	1,624	-	1,624
Subtotal	-	27,253	-	27,253
Capital Assets Net of Depreciation	\$ -	\$ 237,435	\$ -	\$ 237,435

Depreciation for the fiscal year ended June 30, 2005 amounted to \$27,253. The entire depreciated expense was unallocated.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 6. Long-Term Debt**

The following is a summary of long-term obligations of the Academy for the year ended June 30, 2005:

	Balance 7/1/04	Additions	Reductions	Balance 6/30/05	Due Within One Year
Capital Leases					
Helicon Associates	\$ -	\$ 325,000	\$ -	\$ 325,000	\$ 97,741
Total Notes	\$ -	\$ 325,000	\$ -	\$ 325,000	\$ 97,741

The Academy has an outstanding lease for the acquisition of fixed assets and textbooks. Payments are due in monthly installments of \$10,487 through June 23, 2008, with interest of 10%. The annual requirements to service the Helicon Lease, including principal and interest are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 97,741	\$ 28,101	\$ 125,842
2007	107,976	17,866	125,842
2008	119,283	6,559	125,842
Total	\$ 325,000	\$ 52,526	\$ 377,526

**Note 7. Operating Lease Agreement**

The Academy leases classroom facilities under a non-cancelable operating lease agreement. Lease expense for year ended June 30, 2005 was \$400,000. The term of the lease is eight years beginning July 1, 2004 through June 30, 2012. The Lease covers property located at 17570 West 12 Mile Road, Southfield, Michigan. The lease agreement contains a purchase option effective April 1, 2008. This purchase option allows the Academy to obtain the real estate for the market value on the option date.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

The future minimum rental payments for the balance of the lease are as follows:

2005 - 2006	\$ 550,000
2006 - 2007	561,000
2007 - 2008	572,220
2008 - 2009	583,664
2009 - 2010	595,337
2010 - 2012	1,226,633
	<u>\$ 4,088,854</u>

**Note 8. Revenue Anticipation Note**

Crescent Academy has an outstanding revenue anticipated note of \$594,045, with an interest rate of 4.45% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2005 was \$118,809 with a maturity date of August 24, 2005. A new note was obtained by the Academy in the amount of \$599,978 with an interest per annum at a rate equal to the bank's prime rate from time to time in effect minus 1/4% per annum until maturity September 30, 2005. The Academy is confident that this note will be renewed for the 2005 - 2006 school year.

The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2005:

	Balance 7/1/04	Additions	Reductions	Balance 6/30/05
2004-2005	\$ -	\$ 594,045	\$ 475,236	\$ 118,809
2005-2006	-	599,978	-	599,978
Total	\$ -	\$1,194,023	\$ 475,236	\$ 718,787

**Note 9. Purchased Services**

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2005  
(Continued)

**Note 10. Management Company**

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement, which commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fees are based on the number of students for which the Academy receives state aid act funds times \$450 (for year ended June 30, 2005). All subsequent years are based on increases of the average cost of living rate in the Detroit, Michigan area.

**Note 11. Oversight fees**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2005, the Academy incurred expense of \$37,829 for oversight fees.

**Note 12. Risk Management**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

REQUIRED SUPPLEMENTARY INFORMATION

**Crescent Academy**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
<b>Revenues:</b>				
Local Sources	\$ 2,500	\$ 5,400	\$ 5,825	\$ 425
State Sources	1,417,516	1,260,960	1,260,962	2
Federal Sources	300,000	300,000	336,529	36,529
Total revenues	1,720,016	1,566,360	1,603,316	36,956
<b>Expenditures:</b>				
Current:				
Instruction				
Basic Programs	702,512	706,147	688,941	17,206
Added Needs	62,557	49,960	49,960	-
Total Instruction	765,069	756,107	738,901	17,206
Support Services:				
Instructional Staff	5,000	5,000	4,251	749
General Administration	205,700	188,680	188,257	423
School Administration	262,490	252,790	248,884	3,906
Business and Fiscal Services	88,500	85,750	84,398	1,352
Operations/maintenance	579,250	575,500	569,260	6,240
Central	10,000	7,500	6,205	1,295
Total Support Services	1,150,940	1,115,220	1,101,255	13,965
Debt Service				
Principal Retirements	38,500	-	-	-
Total Expenditures	1,954,509	1,871,327	1,840,156	31,171
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(234,493)	(304,967)	(236,840)	68,127
<b>Other Financing Sources (Uses):</b>				
Operating Transfers out	(15,000)	(10,000)	(10,172)	(172)
Financing Proceeds	255,000	325,000	325,000	-
Total Other Financing Sources (Uses):	240,000	315,000	314,828	(172)
<b>Net Change in Fund Balances</b>	5,507	10,033	77,988	67,955
<b>Fund Balances</b>				
Beginning of Year	-	-	-	-
End of Year	\$ 5,507	\$ 10,033	\$ 77,988	\$ 67,955

See notes to financial statements.

Crescent Academy  
 Budgetary Comparison Schedule  
 Special Revenue Fund - Food Service  
 Year Ended June 30, 2005

ADDITIONAL INFORMATION

	Original & Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
<b>Revenues:</b>			
Local Sources:			
Food sales	\$ 5,500	\$ 5,099	\$ (401)
Total local revenues	5,500	5,099	(401)
Federal Sources	9,500	11,136	1,636
Total Revenues	15,000	16,235	1,235
<b>Expenditures:</b>			
Food service	25,000	26,407	(1,407)
Total expenditures	25,000	26,407	(1,407)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(10,000)	(10,172)	(172)
<b>Other Financing Services:</b>			
Operating transfer in	10,000	10,172	172
<b>Net Change in Fund Balances</b>	-	-	-
<b>Fund Balances</b>			
Beginning of year	-	-	-
End of year	\$ -	\$ -	\$ -

See notes to financial statements.



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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Crescent Academy  
Southfield, MI 48141

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crescent Academy as of and for the year ended June 30, 2005, which collectively comprise Crescent Academy's basic financial statements of the Academy and have issued our report thereon dated September 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

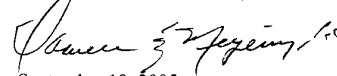
In planning and performing our audit, we considered Crescent Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crescent Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

  
September 19, 2005

**CRESCENT ACADEMY**  
**Report on Financial Statements**  
(with required supplementary and additional information)  
**For the Fiscal Year Ended**  
**June 30, 2006**

**Crescent Academy**  
**Financial Report**  
**For the Fiscal Year Ended**  
**June 30, 2006**

**Table of Contents**

<b>Independent Auditors' Report</b>	iii-iv
<b>Management's Discussion and Analysis</b>	v-xii
<b>Basic Financial Statements</b>	
Government-wide financial statements	
Statement of Net Assets	1
Statement of Activities	2
Fund financial statements	
Balance Sheet - Governmental Funds	3
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	4
Reconciliation of Statement of Revenues, Expenditures and and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
Notes to the Financial Statements	6-17
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	18
<b>Additional Information</b>	
Budgetary Comparison Schedule - Special Revenue Fund Food Service	19
Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Perfoarmed In Accordance With <i>Government Auditing Standards</i>	20-21

## DARNELL & MEYERING, P.C.

*Certified Public Accountants*

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MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

### Independent Auditors' Report

Board of Directors  
Crescent Academy  
17570 W. 12 Mile Rd.  
Southfield, MI 48076

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of June 30, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

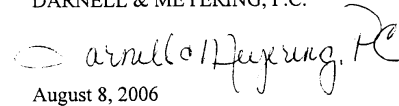
In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2006, on our consideration of Crescent Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crescent Academy's basic financial statements. The additional information on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DARNELL & MEYERING, P.C.

  
August 8, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Crescent Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The academy's fund balance increased by \$40,750.
- Revenues increased by 19 percent.
- Blended enrollment used for state aid purposes was 215 in June 2006.
- The academy maintained its outstanding liabilities.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Crescent Academy Annual Financial Report

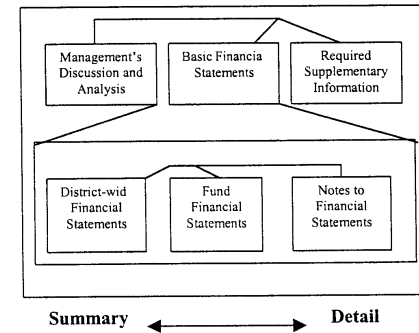


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

### Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

### Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has one kind of fund:

Governmental fund – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$(244,841) on June 30, 2006. See Figure A – 3.

The total revenues were \$1,928,354. State aid foundation allowance included in revenue from state sources accounts for 80 percent of the academy's revenue.

The total cost of instruction was \$769,514. The total cost of support services were \$1,231,054.

The academy's stable financial position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them into line with the academy's revenue.

### Academy governmental activities

There was a state aid increase of \$175 per pupil during the 2005-2006 school year. The school board oversaw the academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

**Figure A-3  
Crescent Academy**

	2006	2005
Current assets	\$ 998,024	\$ 816,196
Capital assets	365,574	237,435
Total assets	1,363,598	1,053,631
Current liabilities	1,139,528	835,949
Noncurrent liabilities	468,911	227,259
Total liabilities	1,608,439	1,063,208
Net assets		
Invested in capital assets, net of related debt	40,429	28,230
Unrestricted	(285,270)	(37,807)
Total net assets	<u>\$ (244,841)</u>	<u>\$ (9,577)</u>

**Figure A-4  
Changes in Crescent Academy's Net Assets**

	2006	2005
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 347,882	\$ 347,665
General revenues:		
State aid - unrestricted	1,542,697	1,260,962
Investment	2,760	542
Charges for services	32,375	5,099
Other	2,640	5,283
Total revenues	1,928,354	1,619,551
Expenses:		
Instruction	769,514	532,832
Support services	1,231,054	1,009,057
Food Services	37,557	26,407
Community services	13,586	-
Interest expense	75,145	33,579
Unallocated depreciation	36,762	27,253
Total expenses	2,163,618	1,629,128
Change in net assets	<u>\$ (235,264)</u>	<u>\$ (9,577)</u>

### Financial analysis of the academy's funds

The stable financial performance of the academy as a whole is reflected in its governmental fund. As the academy completed the year, its governmental funds (general) reported a fund balance of \$118,738.

### General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes, instructional, transportation, community services) since the original budget was adopted.

While the academy's final budget for the general fund anticipated revenues would exceed expenditures by \$2,049, the actual results for the year showed revenues over expenditures of \$40,750.

## Capital asset and debt administration

### Capital assets

By the end of the year ended June 30, 2006, the academy had invested \$365,574 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$51,560.

The Academy's capital assets are as follows:

<b>Figure A-5</b> <b>Crescent Academy's Capital Assets</b>				
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>2006 Net Book Value</b>	<b>2005 Net Book Value</b>
Computer equipment	\$ 192,391	\$ 62,484	\$ 129,907	\$ 88,638
Furniture and fixtures	151,793	10,982	140,812	104,223
Building improvements	100,203	5,347	94,855	44,574
Total	<u>\$ 444,387</u>	<u>\$ 78,813</u>	<u>\$ 365,574</u>	<u>\$ 237,435</u>

### Facilities lease obligation

The academy paid \$441,779 for facilities lease obligations during the 2006 school year.

### Long-term debt

At year end the Academy had \$727,259 in installment obligations. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

<b>Figure A-6</b> <b>Crescent Academy's Outstanding Long-term Debt</b>		
	<b>2006</b>	<b>2005</b>
Installment loans	\$ 727,259	\$ 325,000
Total	<u>\$ 727,259</u>	<u>\$ 325,000</u>

## Factors bearing on the academy's future

At the time these financial statements were prepared and audited, the academy was not aware of existing circumstances that could significantly affect its financial health in the future.

### Contacting the academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 2525 West Jefferson, Trenton, MI 48183.



**Crescent Academy  
Statement of Net Assets  
June 30, 2006**

Assets	Governmental Activities
<b>Current assets:</b>	
Cash and equivalents	\$ 576,413
Receivables:	
Other governmental units	415,261
Prepaid expenses	6,350
<b>Total current assets</b>	<u>998,024</u>
<b>Noncurrent assets:</b>	
Capital assets	444,387
Less accumulated depreciation	(78,813)
<b>Total noncurrent assets</b>	<u>365,574</u>
<b>Total assets</b>	<u>\$ 1,363,598</u>

**Liabilities And Net Assets (Deficit)**

<b>Current liabilities:</b>	
Accounts payable	\$ 21,122
Accrued interest	1,894
Revenue anticipation notes	858,164
Current portion of long term obligations	258,348
<b>Total liabilities</b>	<u>1,139,528</u>
<b>Noncurrent liabilities:</b>	
Noncurrent portion of long term obligations	468,911
<b>Total noncurrent liabilities</b>	<u>468,911</u>
<b>Total liabilities</b>	<u>1,608,439</u>
<b>Net assets:</b>	
Invested in capital assets - net of related debt	40,429
Unrestricted	(285,270)
<b>Total net assets (deficit)</b>	<u>(244,841)</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,363,598</u>

See notes to financial statements

**Crescent Academy  
Statement of Activities  
Year Ended June 30, 2006**

Functions/programs	Expenses	Charges for Services	Program Revenues Operating Grants & Contributions	Governmental Activities Net (expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 769,514	\$ -	\$ 316,925	\$ (452,589)
Support services	1,231,054	-	-	(1,231,054)
Food services	37,557	5,187	30,957	(1,413)
Community services	13,586	27,188	-	13,602
Interest expense	75,145	-	-	(75,145)
Unallocated depreciation	36,762	-	-	(36,762)
<b>Total governmental activities</b>	<u>\$ 2,163,618</u>	<u>\$ 32,375</u>	<u>\$ 347,882</u>	<u>\$ (1,783,361)</u>
General revenues:				
State of Michigan school aid unrestricted				1,542,697
Investment revenue				2,760
Miscellaneous				2,640
<b>Total general revenues</b>				<u>1,548,097</u>
Change in net assets (deficit)				(235,264)
Net assets, beginning of year				<u>(9,577)</u>
Net assets, end of year (deficit)				<u>\$ (244,841)</u>

See notes to financial statements.

**Crescent Academy  
Balance Sheet  
Governmental Funds  
June 30, 2006**

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
<b>Assets:</b>			
Cash and equivalents	\$ 576,413	\$ -	\$ 576,413
Receivables:			
Other governmental units	415,261	-	415,261
Prepaid expenses	6,350	-	6,350
<b>Total assets</b>	<u>\$ 998,024</u>	<u>\$ -</u>	<u>\$ 998,024</u>

**Liabilities and Fund Balances**

<b>Liabilities:</b>			
Accounts payable	\$ 21,122	\$ -	\$ 21,122
Revenue anticipation notes	858,164	-	858,164
<b>Total liabilities</b>	<u>879,286</u>	<u>-</u>	<u>879,286</u>

<b>Fund balances:</b>			
Reserved for prepaid expenses	6,350	-	6,350
Unreserved, undesignated	112,388	-	112,388
<b>Total fund balances</b>	<u>118,738</u>	<u>-</u>	<u>118,738</u>

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Total liabilities and fund balances</b>	<u>\$ 998,024</u>	<u>\$ -</u>	<u>\$ 998,024</u>
<b>Total governmental fund balances</b>			\$ 118,738

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the funds			
The cost of capital assets is		\$ 444,387	
Accumulated depreciation is		<u>(78,813)</u>	
			365,574

Long term liabilities are not due and payable in the current period and are not reported in the funds			
Long term obligations			(727,259)
Accrued interest payable is not included as a liability in governmental funds			(1,894)

<b>Net assets of governmental activities (deficit)</b>			<u>\$ (244,841)</u>
--	--	--	---------------------

Crescent Academy  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Local sources:			
Fees, private sources	\$ 27,188	\$ -	\$ 27,188
Food service	-	5,187	5,187
Investment income	2,760	-	2,760
Other	2,640	-	2,640
Total local revenues	32,588	5,187	37,775
State sources	1,590,911	203	1,591,114
Federal sources	268,711	30,754	299,465
Total revenues	1,892,210	36,144	1,928,354
<b>Expenditures:</b>			
Current:			
Instruction			
Basic programs	712,544	-	712,544
Added needs	169,029	-	169,029
Total instruction	881,573	-	881,573
Support services:			
Pupil	14,850	-	14,850
Instructional staff	27,692	-	27,692
General administration	215,431	-	215,431
School administration	175,825	-	175,825
<b>Expenditures (concluded):</b>			
Current (concluded):			
Business and fiscal services	129,342	-	129,342
Operations/maintenance	680,494	-	680,494
Transportation	104,897	-	104,897
Central	8,616	-	8,616
Total support services	1,357,147	-	1,357,147
Food service	-	37,557	37,557
Community service	13,586	-	13,586
Debt service:			
Principal retirements	97,741	-	97,741
Total expenditures	2,350,047	37,557	2,387,604
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(457,837)</b>	<b>(1,413)</b>	<b>(459,250)</b>
<b>Other financing sources (uses):</b>			
Operating transfers in	-	1,413	1,413
Operating transfers out	(1,413)	-	(1,413)
Financing proceeds	500,000	-	500,000
Total other financing sources (uses):	498,587	1,413	500,000
<b>Net change in fund balances</b>	<b>40,750</b>	<b>-</b>	<b>40,750</b>
<b>Fund balances:</b>			
Beginning of year	77,988	-	77,988
End of year	\$ 118,738	\$ -	\$ 118,738

See notes to financial statements

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of Crescent Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

Crescent Academy is a public school academy in its first year of operations. A public school academy is a Michigan Public School System Under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. The contract with Bay Mills expires on June 30, 2012. Crescent Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

**B. Charter-Wide and Fund Financial Statements**

**Measurement focus, basis of accounting, and financial statement presentation**

**CHARTER-WIDE STATEMENTS**

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

Crescent Academy  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
Year Ended June 30, 2006

<b>Net change in fund balances total governmental funds</b>	<b>\$ 40,750</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Capital outlay	179,699
Depreciation expense	(51,560)
Long term liabilities are not due and payable in the current period and are not reported in the funds	(500,000)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	97,741
Accrued interest is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid.	
Accrued interest payable end of the year	(1,894)
<b>Change in net assets of governmental activities (deficit)</b>	<b><u>\$ (235,264)</u></b>

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The academy has no restricted net assets as of June 30, 2006.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate Academy sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private—sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

## FUND BASED STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following non-major fund type;

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

The school service funds are special revenue funds that separate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The school *service fund* maintained by the Academy is the *food service fund*.

### C. Assets, Liabilities and Net Assets or Equity

#### 1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31,

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

*Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

## 2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2006 the foundation allowance was based on the pupil membership counts taken in September of 2005 and February of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sale and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30 is reported as state aid receivable.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

## 3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

## 4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

## 5. Capital Assets

Capital assets include property, plant, and equipment which are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	3-5 years
Furniture, fixtures and equipment	20 years
Leasehold improvements	10-25 years

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

Notes to the Financial Statements  
June 30, 2006  
(Continued)

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay, which is reported in the function or activity it services. An annual appropriated budget is adopted for the general fund and food service fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund and special revenue funds.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund and special revenue fund.

- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue fund.
- F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.
- G. The Academy did not have significant expenditure budget variances.

**Note 3. Deposits and Investments – Credit Risk**

Cash is held in the name of the Academy in the general fund. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. These assessments are performed by the Academy at least annually. As of June 30, 2006, \$476,113 of the Academy's bank balance of \$576,113 was exposed to custodial credit risk because it was not covered by federal depository insurance.

**Note 4. Receivables**

Receivables as of year-end were as follows:

	<u>General</u>
Receivables:	
State aid	\$ 289,381
Federal	<u>125,880</u>
Net total receivables	<u>\$ 415,261</u>

All receivables were deemed collectible as of June 30, 2006.



CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

Capital Assets Being Depreciated	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Computers	\$ 110,141	\$ 82,250	\$ -	\$ 192,391
Furn, Fixtures & Equipment	108,349	43,444	-	151,793
Leasehold Improvements	46,198	54,005	-	100,203
Subtotal	264,688	179,699	-	444,387
Less Accumulated Depreciation for:				
Computers	21,503	6,855	-	62,484
Furn, Fixtures & Equipment	4,126	40,981	-	10,982
Leasehold Improvements	1,624	3,724	-	5,347
Subtotal	27,253	51,560	-	78,813
Capital Assets Net of Depreciation	\$ 237,435	\$ 128,139	\$ -	\$ 365,574

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

Depreciation for the fiscal year ended June 30, 2006 amounted to \$51,560. Depreciation was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 13,635
Support Services	1,163
Unallocated	36,762
	<u>\$ 51,560</u>

**Note 6. Long-Term Debt**

The following is a summary of long-term obligations of the Academy for the year ended June 30, 2006:

	Balance 7/1/05	Additions	Reductions	Balance 6/30/06	Due Within One Year
Capital Leases					
Robert Post	\$ -	\$ 25,000	\$ -	\$ 25,000	\$ 7,519
Helicon Assoc.	325,000	-	97,741	227,259	107,976
Helicon Assoc.	-	475,000	-	475,000	142,853
Total Notes	<u>\$ 325,000</u>	<u>\$ 500,000</u>	<u>\$ 97,741</u>	<u>\$ 727,259</u>	<u>\$ 258,348</u>

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

The Academy has outstanding leases for the acquisition of fixed assets and textbooks. Long-term debt is as follows:

Robert Post lease due in monthly installments of \$807 through June 1, 2009; interest is 10%	\$ 25,000
Helicon Assoc. lease due in monthly installments of \$10,487 through June 23, 2008; interest is 10%	227,259
Helicon Assoc. lease due in monthly installments of \$15,327 through June 1, 2009; interest is 10%	<u>475,000</u>
Total long-term debt	<u>\$ 727,259</u>

The annual requirements to service the leases, including principal and interest are as follows:

C-32

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 258,348	\$ 61,098	\$ 319,446
2008	285,400	34,046	319,446
2009	<u>183,511</u>	<u>10,091</u>	<u>193,602</u>
Total	<u>\$ 727,259</u>	<u>\$ 105,235</u>	<u>\$ 832,494</u>

**Note 7. Operating Lease Agreement**

The Academy leases classroom facilities under a non-cancelable operating lease agreement. Lease expense for year ended June 30, 2006 was \$400,000. The term of the lease is eight years beginning July 1, 2004 through June 30, 2012. The Lease covers property located at 17570 West 12 Mile Road, Southfield, Michigan. The lease agreement contains a purchase option effective April 1, 2008. This purchase option allows the Academy to obtain the real estate for the market value on the option date.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

The future minimum rental payments for the balance of the lease are as follows:

2006 – 2007	550,000
2007 – 2008	561,000
2008 – 2009	572,220
2009 – 2010	583,664
2010 – 2012	595,337
2011 – 2012	<u>676,633</u>
	<u>\$ 3,538,854</u>

**Note 8. Revenue Anticipation Note**

Crescent Academy has an outstanding revenue anticipated note of \$599,978, with interest at a rate equal to the banks prime rate from time to time in effect minus ½ % per annum to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2006 was \$127,891 with a maturity date of September 30, 2006. A new note was obtained by the Academy in the amount of \$730,273 with an interest per annum at a rate equal to the bank's prime rate from time to time in effect minus ½% per annum until maturity August 24, 2006. The Academy is confident that this note will be renewed for the 2006 – 2007 school year.

The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2006:

	Balance 7/1/05	Additions	Reductions	Balance 6/30/06
2004-2005	\$ 118,809	\$ -	\$ 118,809	\$ -
2005-2006	599,978	-	472,087	127,891
2007-2008	<u>\$ -</u>	<u>\$ 730,273</u>	<u>\$ -</u>	<u>730,273</u>
Total	<u>\$ 718,787</u>	<u>\$ 730,273</u>	<u>\$ 590,896</u>	<u>\$ 858,164</u>

**Note 9. Purchased Services**

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2006  
(Continued)

**Note 10. Management Company**

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement, which commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fees are based on the number of students for which the Academy receives state aid act funds times \$450 (for year ended June 30, 2006). All subsequent years are based on increases of the average cost of living rate in the Detroit, Michigan area.

**Note 11. Oversight fees**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of \$47,733 for oversight fees.

REQUIRED SUPPLEMENTARY INFORMATION

**Note 12. Risk Management**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

**Crescent Academy**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
<b>Revenues:</b>				
Local sources	\$ 7,500	\$ 30,300	\$ 32,588	\$ 2,288
State sources	1,837,460	1,590,926	1,590,911	(15)
Federal sources	200,000	279,461	268,711	(10,750)
<b>Total revenues</b>	<b>2,044,960</b>	<b>1,900,687</b>	<b>1,892,210</b>	<b>(8,477)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction				
Basic programs	699,065	735,316	712,544	22,772
Added needs	59,960	164,179	169,029	(4,850)
<b>Total instruction</b>	<b>759,025</b>	<b>899,495</b>	<b>881,573</b>	<b>17,922</b>
<b>Support services:</b>				
Pupil	-	16,500	14,850	1,650
Instructional staff	5,000	33,722	27,692	6,030
General administration	241,624	215,428	215,431	(3)
School administration	174,935	176,683	175,825	858

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
<b>Expenditures (concluded):</b>				
<b>Current (concluded):</b>				
Business and fiscal services	119,575	131,425	129,342	2,083
Operations/maintenance	545,250	684,604	680,494	4,110
Transportation	60,000	113,825	104,897	8,928
Central	12,500	9,000	8,616	384
<b>Total support services</b>	<b>1,158,884</b>	<b>1,381,187</b>	<b>1,357,147</b>	<b>24,040</b>
Community service	-	15,206	13,586	1,620
<b>Debt Service:</b>				
Principal retirements	97,750	97,750	97,741	9
<b>Total expenditures</b>	<b>2,015,659</b>	<b>2,393,638</b>	<b>2,350,047</b>	<b>43,591</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>29,301</b>	<b>(492,951)</b>	<b>(457,837)</b>	<b>35,114</b>
<b>Other financing sources (uses):</b>				
Operating transfers out	(10,000)	(5,000)	(1,413)	3,587
Financing proceeds		500,000	500,000	-
<b>Total other financing sources (uses)</b>	<b>(10,000)</b>	<b>495,000</b>	<b>498,587</b>	<b>3,587</b>
<b>Net change in fund balances</b>	<b>19,301</b>	<b>2,049</b>	<b>40,750</b>	<b>38,701</b>
<b>Fund balances:</b>				
Beginning of year	77,988	77,988	77,988	-
End of year	\$ 97,289	\$ 80,037	\$ 118,738	\$ 38,701

See notes to financial statements

Crescent Academy  
Budgetary Comparison Schedule  
Special Revenue Fund - Food Service  
Year Ended June 30, 2006

ADDITIONAL INFORMATION

	<u>Original</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with final budget Favorable (Unfavorable)
<b>Revenues:</b>				
Local Sources:				
Food sales	\$ 5,500	\$ 5,150	\$ 5,187	\$ 37
Total local revenues	5,500	5,150	5,187	37
State Sources	-	203	203	-
Federal Sources	9,500	27,997	30,754	2,757
Total Revenues	15,000	33,350	36,144	2,794
<b>Expenditures:</b>				
Food service	25,000	38,350	37,557	793
Total expenditures	25,000	38,350	37,557	793
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(10,000)</u>	<u>(5,000)</u>	<u>(1,413)</u>	<u>3,587</u>
<b>Other financing services:</b>				
Operating transfer in	10,000	5,000	1,413	(3,587)
<b>Net change in fund balance</b>	-	-	-	-
<b>Fund balance:</b>				
Beginning of year	-	-	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

## DARNELL & MEYERING, P.C.

*Certified Public Accountants*

CLINTON MEYERING, C.P.A.  
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AMERICAN INSTITUTE OF  
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MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Crescent Academy  
Southfield, MI 48141

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crescent Academy as of and for the year ended June 30, 2006, which collectively comprise Crescent Academy's basic financial statements of the Academy and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crescent Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

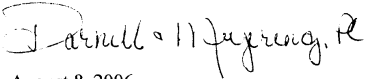
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crescent Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to the management of Crescent Academy in a separate letter dated August 8, 2006.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.



August 8, 2006

**CRESCENT ACADEMY**  
**Report on Financial Statements**  
(with required supplementary and additional information)  
**For the Fiscal Year Ended**  
**June 30, 2007**

**Crescent Academy**  
**Financial Report**  
**For the Fiscal Year Ended**  
**June 30, 2007**

**Table of Contents**

<b>Independent Auditors' Report</b>	iii-iv
<b>Management's Discussion and Analysis</b>	v-xii
<b>Basic Financial Statements</b>	
Government-wide financial statements	
Statement of Net Assets	1
Statement of Activities	2
Fund financial statements	
Balance Sheet - Governmental Funds	3
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	4
Reconciliation of Statement of Revenues, Expenditures and and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
Notes to the Financial Statements	6-21
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	22
<b>Additional Information</b>	
Budgetary Comparison Schedule - Special Revenue Fund Food Service	23
Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	24-26

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### Independent Auditors' Report

Board of Directors  
Crescent Academy  
17570 W. 12 Mile Rd.  
Southfield, MI 48076

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of June 30, 2007 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of Crescent Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crescent Academy's basic financial statements. The additional information on page 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DARNELL & MEYERING, P.C.

  
November 1, 2007



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Crescent Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The academy's fund balance decreased by \$84,413.
- Blended enrollment used for state aid purposes was 308 in June 2007 up from 215 in June 2006.
- The academy increased its assets by 5,006,641 with the purchase of their building.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Crescent Academy Annual Financial Report

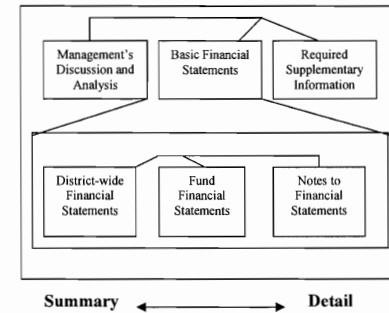


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
		<b>Governmental funds</b>
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

#### Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

#### Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

**Governmental activities** – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has one kind of fund:

**Governmental fund** – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$(725,015) on June 30, 2007. See Figure A – 3.

The total revenues were \$2,582,853. State aid foundation allowance included in revenue from state sources accounts for 80 percent of the academy's revenue.

The total cost of instruction was \$970,146. The total cost of support services were \$1,634,387.

The food service had an excess of expenditures over revenues of \$11,201 in 2007. The general fund transferred \$11,201 to the food service fund.

The academy spent \$84,418 of its fund balance reducing the fund to \$34,325.

The academy purchased its building located at 17570 West 12 Mile Road, Southfield MI.

### Academy governmental activities

**Figure A-3  
Crescent Academy**

	2007	2006
Current assets	\$ 1,177,118	\$ 998,024
Noncurrent assets	1,128,036	-
Capital assets	5,372,215	365,574
Total assets	7,677,369	1,363,598
Current liabilities	1,312,384	1,139,528
Noncurrent liabilities	7,090,000	468,911
Total liabilities	8,402,384	1,608,439
Net assets (deficit):		
Invested in capital assets, net of related debt	1,247,047	40,429
Restricted - Debt service	522,513	-
Unrestricted	(481)	(285,270)
Total net assets (deficit)	\$ (725,015)	\$ (244,841)

**Figure A-4  
Changes in Crescent Academy's Net Assets**

	2007	2006
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 242,600	\$ 347,882
General revenues:		
State aid - unrestricted	2,262,836	1,542,697
Investment	49,164	2,760
Charges for services	26,621	32,375
Other	1,632	2,640
Total revenues	2,582,853	1,928,354
Expenses:		
Instruction	970,146	769,514
Support services	1,634,387	1,231,054
Food Services	68,013	37,557
Community services	11,481	13,586
Interest expense	332,333	75,145
Unallocated depreciation	46,667	36,762
Total expenses	3,063,027	2,163,618
Change in net assets	\$ (480,174)	\$ (235,264)

### General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes, instructional, transportation, community services) since the original budget was adopted.

While the academy's final budget for the general fund anticipated expenditures would exceed revenue by \$91,022 the actual results for the year showed expenditures over revenue of \$84,418.

### Capital asset and debt administration

#### Capital assets

By the end of the year ended June 30, 2007, the academy had invested \$5,613,736 in capital assets consisting primarily of its building, computers, software, furniture and fixtures. Information about capital assets can be found in Note 5 to the financial statements. Total accumulated depreciation was \$241,521.

The Academy's capital assets are as follows:

**Figure A-5**  
**Crescent Academy's Capital Assets**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>2007 Net Book Value</b>	<b>2006 Net Book Value</b>
Land	\$ 287,960	\$ -	\$ 287,960	\$ -
Computer equipment	219,685	114,143	105,542	129,907
Furniture and fixtures	239,449	21,661	217,788	140,812
Building improvements	152,182	11,428	140,754	94,855
Building	4,714,460	94,289	4,620,171	-
Total	<u>\$ 5,613,736</u>	<u>\$ 241,521</u>	<u>\$ 5,372,215</u>	<u>\$ 365,574</u>

#### **Facilities lease obligation**

The academy paid \$200,000 for facilities lease obligations during the 2007 school year. This amount was reduced from previous year because the school purchased its building in January 2007.

#### **Long-term debt**

At year end the Academy had \$7,190,000 in capital leases and COP's. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

**Figure A-6**  
**Crescent Academy's Outstanding Long-term Debt**

	<b>2007</b>	<b>2006</b>
Capital Leases	\$ 100,000	\$ 727,259
Certificate of Participation	<u>7,090,000</u>	<u>-</u>
Total	<u>\$7,190,000</u>	<u>\$ 727,259</u>

#### **Factors bearing on the academy's future**

At the time these financial statements were prepared and audited, the academy was not aware of existing circumstances that could significantly affect its financial health in the future.

#### **Contacting the academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 17570 West Twelve Mile Road, Southfield, MI 48076.

**Crescent Academy  
Statement of Net Assets  
June 30, 2007**

Assets	Governmental Activities
<b>Current assets:</b>	
Cash and equivalents	\$ 719,472
Receivables:	
Accounts receivable	1,125
Other governmental units	449,789
Deposits	3,913
Prepaid expenses	2,819
<b>Total current assets</b>	<u>1,177,118</u>
<b>Noncurrent assets:</b>	
Investments - debt service	557,298
Investments - capital projects	15,763
Issuance costs, net of amortization	554,975
Capital assets	5,613,736
Less accumulated depreciation	(241,521)
<b>Total noncurrent assets</b>	<u>6,500,251</u>
<b>Total assets</b>	<u>\$ 7,677,369</u>
<b>Liabilities And Net Assets (Deficit)</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 92,428
Accrued oversight fees	12,772
Accrued interest	43,093
Revenue anticipation notes	1,064,091
Current portion of long term obligations	100,000
<b>Total liabilities</b>	<u>1,312,384</u>
<b>Noncurrent liabilities:</b>	
Noncurrent portion of long term obligations	<u>7,090,000</u>
<b>Total noncurrent liabilities</b>	<u>7,090,000</u>
<b>Total liabilities</b>	<u>8,402,384</u>
<b>Net assets (deficit):</b>	
Invested in capital assets - net of related debt (deficit)	(1,247,047)
Restricted - debt service	522,513
Unrestricted (deficit)	(481)
<b>Total net assets (deficit)</b>	<u>(725,015)</u>
<b>Total liabilities and net assets (deficit)</b>	<u>\$ 7,677,369</u>

See notes to financial statements.

**Crescent Academy  
Statement of Activities  
Year Ended June 30, 2007**

Functions/programs	Expenses	Charges for Services	Program Revenues Operating Grants & Contributions	Governmental Activities Net (expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 970,146	\$ -	\$ 185,788	\$ (784,358)
Support services	1,634,387	-	-	(1,634,387)
Food services	68,013	6,451	50,361	(11,201)
Community services	11,481	26,621	-	15,140
Interest expense	332,333	-	-	(332,333)
Unallocated depreciation and amortization	46,667	-	-	(46,667)
<b>Total governmental activities</b>	<u>\$ 3,063,027</u>	<u>\$ 33,072</u>	<u>\$ 236,149</u>	(2,793,806)
General revenues:				
State of Michigan school aid unrestricted				2,262,836
Investment revenue				49,164
Miscellaneous				1,632
<b>Total general revenues</b>				<u>2,313,632</u>
<b>Change in net assets (deficit)</b>				(480,174)
<b>Net assets, beginning of year (deficit)</b>				<u>(244,841)</u>
<b>Net assets, end of year (deficit)</b>				<u>\$ (725,015)</u>

See notes to financial statements.

**Crescent Academy  
Balance Sheet  
Governmental Funds  
June 30, 2007**

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
<b>Assets:</b>					
Cash and equivalents	\$ 719,472	\$ -	\$ 448	\$ -	\$ 719,920
Receivables:					
Accounts receivable	1,125	-	-	-	1,125
Other governmental units	449,789	-	-	-	449,789
Deposits	3,913	-	-	-	3,913
Prepaid expenditures	2,819	-	-	-	2,819
Investments-restricted	34,785	522,513	15,315	-	572,613
<b>Total assets</b>	<u>\$ 1,211,903</u>	<u>\$ 522,513</u>	<u>\$ 15,763</u>	<u>\$ -</u>	<u>\$ 1,750,179</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 92,428	\$ -	\$ -	\$ -	\$ 92,428
Accrued oversight fee	12,772	-	-	-	12,772
Accrued interest	8,287	-	-	-	8,287
Revenue anticipation notes	1,064,091	-	-	-	1,064,091
<b>Total liabilities</b>	<u>1,177,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,177,578</u>
<b>Fund balances:</b>					
Reserved for debt service	34,785	522,513	-	-	557,298
Reserved for capital projects	-	-	15,763	-	15,763
Reserved for deposits	3,913	-	-	-	3,913
Reserved for prepaid expenditures	2,819	-	-	-	2,819
Unreserved, undesignated	(7,192)	-	-	-	(7,192)
<b>Total fund balances</b>	<u>34,325</u>	<u>522,513</u>	<u>15,763</u>	<u>-</u>	<u>572,601</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,211,903</u>	<u>\$ 522,513</u>	<u>\$ 15,763</u>	<u>\$ -</u>	<u>\$ 1,750,179</u>

**Total governmental fund balances** \$ 572,601

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the funds

The cost of capital assets is	\$ 5,613,736	
Accumulated depreciation is	<u>(241,521)</u>	5,372,215

Debt issuance cost	564,880	
Accumulated amortization	<u>(9,905)</u>	554,975

Long term liabilities are not due and payable in the current period and are not reported in the funds

Certificate of Participation	(7,090,000)
Capital lease obligations	<u>(100,000)</u>

Accrued interest payable is not included as a liability in governmental funds	<u>(34,806)</u>
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<b>Net deficit of governmental activities</b>	<u><u>\$ (725,015)</u></u>
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**Crescent Academy**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2007**

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Local sources	\$ 43,634	\$ 10,914	\$ 22,869	\$ 6,451	\$ 83,868
State sources	2,340,533	-	-	1,419	2,341,952
Federal sources	108,091	-	-	48,942	157,033
Total revenues	2,492,258	10,914	22,869	56,812	2,582,853
<b>Expenditures:</b>					
Current:					
Instruction:					
Basic programs	887,575	-	-	-	887,575
Added needs	134,849	-	-	-	134,849
Total instruction	1,022,424	-	-	-	1,022,424
Support services:					
Pupil	37,301	-	-	-	37,301
Instructional staff	6,407	-	-	-	6,407
General administration	348,062	-	-	-	348,062
School administration	277,033	-	-	-	277,033
Business	363,950	-	564,880	-	928,830
Operations/maintenance	622,024	-	5,002,420	-	5,624,444
Transportation	236,288	-	-	-	236,288
Central	31,448	-	-	-	31,448
Total support services	1,922,513	-	5,567,300	-	7,489,813
<b>Expenditures (concluded):</b>					
Current (concluded):					
Food Service	-	-	-	68,013	68,013
Community service	11,481	-	-	-	11,481
Debt service:					
Principal retirements	-	-	727,259	-	727,259
Total expenditures	2,956,418	-	6,294,559	68,013	9,318,990
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(464,160)</b>	<b>10,914</b>	<b>(6,271,690)</b>	<b>(11,201)</b>	<b>(6,736,137)</b>
<b>Other financing sources (uses):</b>					
Operating transfers out	(11,201)	(10,914)	(802,547)	-	(824,662)
Operating transfers in	290,948	522,513	-	11,201	824,662
Lease proceeds	100,000	-	-	-	100,000
Financing proceeds	-	-	7,090,000	-	7,090,000
Total other financing sources (uses):	379,747	511,599	6,287,453	11,201	7,190,000
<b>Net change in fund balances</b>	<b>(84,413)</b>	<b>522,513</b>	<b>15,763</b>	<b>-</b>	<b>453,863</b>
<b>Fund balances:</b>					
Beginning of year	118,738	-	-	-	118,738
End of year	\$ 34,325	\$ 522,513	\$ 15,763	\$ -	\$ 572,601

See notes to financial statements

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of Crescent Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

Crescent Academy is a public school academy. A public school academy is a Michigan Public School System Under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. The contract with Bay Mills expires on June 30, 2012. Crescent Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

**B. Charter-Wide and Fund Financial Statements**

**Measurement focus, basis of accounting, and financial statement presentation**

**CHARTER-WIDE STATEMENTS**

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

Crescent Academy  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2007

<b>Net change in fund balances total governmental funds</b>	<b>\$ 453,863</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Capital outlay	5,169,349
Depreciation expense	(162,708)
Proceeds and repayments of principal on long-term debt are an other financing sources and expenditures in the governmental funds, but not in the statement of activities. (where they are additions and reductions of liabilities)	
Proceeds from capital lease	(100,000)
Proceeds from Certificates of Participation	(7,090,000)
Issuance costs on Certificates of Participation	564,880
Amortization of debt issuances costs	(9,905)
Principal repayment on capital leases	727,259
Accrued interest is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid.	
Accrued interest payable beginning of the year	1,894
Accrued interest payable end of the year	(34,806)
<b>Change in net assets of governmental activities</b>	<b>\$ (480,174)</b>

See notes to financial statements.



CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate Academy sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private—sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

## FUND BASED STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the servicing of the Academy's Certificates of Participation (COP). COPs are classified as long-term debt instruments that are required to be maintained in a separate fund with its own bank account.

The *capital projects fund* accounts for amounts received from financing funds to construct buildings. It also accounts for the construction costs and their disbursements throughout the construction period.

Additionally, the Academy reports the following non-major fund type;

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

The school service funds are special revenue funds that separate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The school *service fund* maintained by the Academy is the *food service fund*.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the charter-wide financial statements except for any accounts due to or due from the special revenue fund as related to the other governmental funds.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2007 the foundation allowance was based on the pupil membership counts taken in September of 2006 and February of 2006.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sale and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30 is reported as state aid receivable.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets include property, plant, and equipment which are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	3-5 years
Furniture, fixtures and equipment	20 years
Leasehold improvements	10-25 years
Building	25 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay, which is reported in the function or activity it services. An annual appropriated budget is adopted for the general fund and food service fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund and special revenue funds.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund and special revenue fund.

- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue fund.
- F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.
- G. The Academy had one significant expenditure budget variance.

For the fiscal year ended June 30, 2007, expenditures exceeded appropriations in the following fund account:

<u>Functions</u>	<u>Amount by which expenditures exceeded appropriations</u>
Support - General Administration	\$67,545

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 3. Deposits and Restricted Investments**

The Academy is governed by the deposit and investment limitations of Michigan State law which are indicated in the Summary of Significant Accounting Policies reported earlier. Under the terms of the Certificates of Participation debt agreement, certain investments are required to be restricted. The deposits and investments held at June 30, 2007, and reported at fair value, are as follows:

Type	Rating	Maturities	Carrying Value
Unrestricted Deposits			
Deposits:			
Cash on hand			\$ 300
Demand deposits			719,172
Total Unrestricted Deposits			719,472
Restricted Investments:			
U.S. Treasury & Agency Obligations	Aaa	Various	34,785
U.S. Treasury & Agency Obligations	Aaa	Various	538,276
Total Deposits and Restricted Investments			\$ 1,292,533
Reconciliation to Statement of Net Assets:			
Current:			
Cash and Cash Equivalents			\$ 719,472
Noncurrent:			
Investments - Debt Service			557,298
Investments - Capital Projects			15,763
Total Deposits and Restricted Investments			\$ 1,292,533

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Interest Rate Risk**

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by; structuring the investment portfolio so that the securities purchased can mature immediately when funds are needed to meet operating needs (sweep account). This avoids the need to sell securities in the open market, and investing operating funds primarily in short term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

**Credit Risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2007, the Academy had no rated investments in commercial paper or corporate bonds.

**Concentration of Credit Risk**

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the even of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2007, \$0 of the Academy's bank balance of \$25,000 was exposed to custodial credit risk because it was covered by federal depository insurance. The FDIC insures bank deposits up to \$100,000.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy minimizes custodial credit risk by limiting investments to bank investment pools invested in U.S. Government Obligations and pre-qualifying the financial institution with which the Academy will do business. Of the investments in U.S. Treasury and Agency Obligations and Money Market Funds of \$1,187,584, the Academy has a custodial credit risk exposure of \$1,187,584 because the related securities are uninsured and unregistered.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

**Foreign Currency Risk**

The Academy is not authorized to invest in investments, which have this type of risk.

**Note 4. Receivables**

Receivables as of year-end were as follows:

	<u>General</u>
Receivables	
Other	\$ 1,125
State aid	425,745
Federal	<u>24,044</u>
Net total receivables	<u>\$ 450,914</u>

All receivables were deemed collectible as of June 30, 2007.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 287,960	\$ -	\$ 287,960
Capital assets being depreciated:				
Building	-	4,714,460	-	4,714,460
Computers	192,391	27,294	-	219,685
Furniture, fixtures, and equipment	151,793	87,656	-	239,449
Leasehold improvements	<u>100,203</u>	<u>51,979</u>	<u>-</u>	<u>152,182</u>
Subtotal	<u>444,387</u>	<u>4,881,389</u>	<u>-</u>	<u>5,325,776</u>
Total capital assets	<u>444,387</u>	<u>5,169,349</u>	<u>-</u>	<u>5,613,736</u>
Less accumulated depreciation for:				
Building	-	94,289	-	94,289
Computers	62,484	51,659	-	114,143
Furniture, fixtures, and equipment	10,982	10,679	-	21,661
Leasehold improvements	<u>5,347</u>	<u>6,081</u>	<u>-</u>	<u>11,428</u>
Subtotal	<u>78,813</u>	<u>162,708</u>	<u>-</u>	<u>241,521</u>
Net capital assets being depreciated	<u>365,574</u>	<u>4,718,681</u>	<u>-</u>	<u>5,084,255</u>
Other assets:				
Certificates of Participation issuance costs	-	564,880	-	564,880
Accumulated amortization	<u>-</u>	<u>(9,905)</u>	<u>-</u>	<u>(9,905)</u>
Subtotal	<u>-</u>	<u>554,975</u>	<u>-</u>	<u>554,975</u>
Net governmental capital assets and other assets	<u>\$ 365,574</u>	<u>\$ 5,561,616</u>	<u>\$ -</u>	<u>\$ 5,927,190</u>



CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

Depreciation and amortization for the fiscal year ended June 30, 2007 amounted to approximately \$172,613. Depreciation and amortization was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 27,628
Support	98,318
Unallocated	46,667
	<u>\$ 172,613</u>

**Note 6. Interfund Transfers**

The transfers from the General Fund were made to support the debt payments being paid out of the Debt Service Fund and to support expenditures being paid out of the Lunch Fund.

Transfer in:

	General	Food Service Fund	Debt Service Fund	Total
Transfer out:				
General Fund	\$ -	\$ 11,201	\$ -	\$ 11,201
Capital Projects	280,034	-	522,513	802,547
Debt Service Fund	10,914	-	-	10,914
Total	<u>\$ 290,948</u>	<u>\$ 11,201</u>	<u>\$ 522,513</u>	<u>\$ 824,662</u>

**Note 7. Long-Term Debt**

The Academy issues Certificates of Participation (COP) and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The COPs are direct obligations and pledge the full faith and credit of the Academy. Other long-term obligations include capital leases.

In December 2006, the Academy issued \$7,090,000 of Certificates of Participation. This was obtained by Dr. Charles Drew Academy acting as a conduit financier to enable Crescent Academy to finance the purchase of its school building. The Academy's obligation is absolute and unconditional in all events and that each Crescent purchase payment is payable without any right of set-off or counterclaims.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

Long-term obligation activity can be summarized as follows:

Governmental Activities	Balance 7/1/06	Additions	Reductions	Balance 6/30/07	Due Within One Year
2006 COPs	\$ -	\$ 7,090,000	\$ -	\$ 7,090,000	\$ -
Total COPs	-	7,090,000	-	7,090,000	-
Capital Leases	727,259	100,000	727,259	100,000	100,000
Total	<u>\$ 727,259</u>	<u>\$ 7,190,000</u>	<u>\$ 727,259</u>	<u>\$ 7,190,000</u>	<u>\$ 100,000</u>

The annual requirements to service the bonds and capital lease obligation, including principal and interest are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 100,000	\$ 413,174	\$ 513,174
2009	-	407,675	407,675
2010	-	407,675	407,675
2011	105,000	404,656	509,656
2012	110,000	398,475	508,475
2013-2017	660,000	1,886,575	2,546,575
2018-2022	875,000	1,666,781	2,541,781
2023-2027	1,170,000	1,374,250	2,544,250
2028-2032	1,560,000	985,263	2,545,263
2033-2037	2,610,000	449,938	3,059,938
Total	<u>\$ 7,190,000</u>	<u>\$ 8,394,462</u>	<u>\$ 15,584,462</u>

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

Governmental Activities:

The Academy has outstanding leases for the acquisition of fixed assets and textbooks. Long-term debt is as follows:

Long-term obligations currently outstanding are as follows:

Helicon Assoc. lease due in monthly installments of \$8,792 through June 1, 2008; interest is 10%	\$ 100,000
Revenue and Refunding Bonds with semi-annual installments through December 1, 2036. Interest stated at 5.75% with interest only payments thru June 1, 2010.	7,090,000
	<u>7,090,000</u>
Total long-term debt	<u>\$ 7,190,000</u>

**Note 8. Operating Lease Agreement**

The Academy was leasing its classroom facilities under a non-cancelable operating lease agreement which had a term of eight years beginning July 1, 2004 through June 30, 2012. The lease covered property located at 17570 West 12 Mile Road, Southfield, Michigan. The lease agreement contained a purchase option which was exercised in the current year. The building at the above location was purchased by the Academy on December 20, 2006. Lease expense for the first six months of the 06/07 school year was approximately \$300,460.

**Note 9. Revenue Anticipation Note**

Crescent Academy has an outstanding revenue anticipated note of \$1,050,000, with interest of 7.56% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2007 was \$286,364 with a maturity date of August 31, 2007. A new note was obtained by the Academy in the amount of \$777,727 with an interest per annum at a rate equal to the bank's prime rate from time to time in effect minus ½% per annum until maturity October 1, 2007.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2007:

	Balance 7/1/06	Additions	Reductions	Balance 6/30/07
2005-2006	\$ 127,891	\$ -	\$ 127,891	\$ -
2006-2007	730,273	319,727	763,636	286,364
2007-2008	-	777,727	-	777,727
	<u>858,164</u>	<u>1,097,454</u>	<u>891,527</u>	<u>1,064,091</u>
Total	<u>\$ 858,164</u>	<u>\$ 1,097,454</u>	<u>\$ 891,527</u>	<u>\$ 1,064,091</u>

**Note 10. Purchased Services**

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

**Note 11. Management Company**

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement, which commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fees are equal to 10 percent (10%) of the product of the Academy's state school aid basic foundation allowance multiplied by the number of full time equated pupils enrolled and in regular daily attendance on the pupil membership count day for the current school year. During the year ended June 30, 2007, the Academy incurred expense of approximately \$227,310 for management fees.

**Note 12. Oversight fees**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposed obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007 the Academy incurred expense of approximately \$70,258 for oversight fees.

**Note 13. Risk Management**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

CRESCENT ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 14. Related Party Transactions**

There were members of the board who were also employees or subcontractors of the management company. Subsequent to the year end, the board of directors was dismissed of their duties and a new board was appointed by the oversight agency.

The Academy was leasing it's facility from SAAS Development, LLC. The owner and two employees of the Academy's management company were investor members of that LLC. In December 2006, the building was purchased by the Academy.

**Note 15. Subsequent Events**

The Academy entered into a Consultancy Services Agreement with Helicon Associates, Inc. dated January 18, 2007. On April 17, 2007 the Bay Mills Community College Board of Regents ("College Board") issued a Notice of Intent to Revoke the Contract to Charter a Public School Academy issued by the College Board to Crescent Academy dated August 1, 2004. On August 8, 2007 the Crescent Academy Board received notice from the College Board that the Plan of Correction proposed to remediate the deficiencies described in the Notice of Intent to Revoke required the termination of the Consultancy Services Agreement with Helicon Associates, Inc. The Crescent Academy Board subsequently authorized its legal counsel to notify Helicon Associates, Inc. of Crescent Academy's intent to terminate the Consultancy Services Agreement for cause, and to enter into negotiations with Helicon Associates, Inc. of an agreement, consistent with the College Board's Plan of Correction, that would allow for the orderly transition of school management to a new Educational Service Provider. In the course of these negotiations Helicon has made demand for payment of \$95,000 representing amounts that it contends were advanced for payroll in August 2007 and amounts due under an equipment lease. Crescent contests these amounts. A forensic accountant has been retained by Bay Mills for the purpose of determining the validity of this amount, as well as to determine whether there are offsetting amounts due and owing the Academy as a result of Helicon's actions under the Consultancy Services Agreement. As of this date, the parties continue to negotiate this dispute and it is not clear whether it will require arbitration pursuant to the terms of the Consultancy Services Agreement.

**REQUIRED SUPPLEMENTARY INFORMATION**



**Crescent Academy**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
<b>Revenues:</b>				
Local sources	\$ 37,000	\$ 38,750	\$ 43,634	\$ 4,884
State sources	2,371,735	2,340,566	2,340,533	(33)
Federal sources	110,036	119,888	108,091	(11,797)
Total revenues	2,518,771	2,499,204	2,492,258	(6,946)
<b>Expenditures:</b>				
Current:				
Instruction:				
Basic programs	762,692	912,948	887,575	25,373
Added needs	118,377	141,211	134,849	6,362
Total instruction	881,069	1,054,159	1,022,424	31,735
Support services:				
Pupil	27,500	44,000	37,301	6,699
Instructional staff	13,616	18,340	6,407	11,933
General administration	263,652	280,517	348,062	(67,545)
School administration	215,924	282,505	277,033	5,472
Business	191,366	365,352	363,950	1,402
Operations/maintenance	610,729	622,612	622,024	588
Transportation	164,620	247,877	236,288	11,589
Central	16,500	32,500	31,448	1,052
Total support services	1,503,907	1,893,703	1,922,513	(28,810)

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
<b>Expenditures (concluded):</b>				
Community service	15,206	12,182	11,481	701
Debt service:				
Principal retirements	107,976	-	-	-
Total expenditures	2,508,158	2,960,044	2,956,418	3,626
<b>Excess (deficiency) of revenues over expenditures</b>	10,613	(460,840)	(464,160)	(3,320)
<b>Other financing sources (uses):</b>				
Operating transfers out	(5,000)	(17,500)	(11,201)	6,299
Operating transfers in	-	287,318	290,948	3,630
Lease proceeds	-	100,000	100,000	-
Total other financing sources (uses)	(5,000)	369,818	379,747	9,929
<b>Net change in fund balance</b>	5,613	(91,022)	(84,413)	6,609
<b>Fund balance:</b>				
Beginning of year	118,738	118,738	118,738	-
End of year	\$ 124,351	\$ 27,716	\$ 34,325	\$ 6,609

# ADDITIONAL INFORMATION

## Crescent Academy Budgetary Comparison Schedule Food Service Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final budget Favorable (Unfavorable)
<b>Revenues:</b>				
Local sources	\$ 5,150	\$ 6,350	\$ 6,451	\$ 101
State sources	203	1,419	1,419	-
Federal sources	27,997	44,731	48,942	4,211
Total revenues	33,350	52,500	56,812	4,312
<b>Expenditures:</b>				
Food service	38,350	70,000	68,013	1,987
Total expenditures	38,350	70,000	68,013	1,987
<b>Excess (deficiency) of revenues over expenditures</b>	(5,000)	(17,500)	(11,201)	6,299
<b>Other financing sources (uses):</b>				
Operating transfers in	5,000	17,500	11,201	(6,299)
Total other financing sources (uses)	5,000	17,500	11,201	(6,299)
<b>Net change in fund balance</b>	-	-	-	-
<b>Fund balance:</b>				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

## DARNELL & MEYERING, P.C.

*Certified Public Accountants*

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Directors  
Crescent Academy  
Southfield, Michigan 48883

We have audited the financial statements of Crescent Academy, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crescent Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Crescent Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

#### 2007 – 1 Finding:

The Academy has hired a management company to provide bookkeeping and accounting services which includes cash disbursements and the maintaining and reconciling of all bank accounts. In our assessment of internal controls, we found there was not adequate segregation of duties in the accounts payable process among the two persons involved. There is no independent verification and approval of the source documents to support expenditures charged to the Academy.

#### Response:

The Academy has retained a new management company for the 2007/2008 school year and will now be under new internal control procedures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crescent Academy's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These certain matters are reported to management of Crescent Academy in a separate letter dated November 1, 2007.

This report is intended solely for the information and use of management, others within the Academy, the Michigan Department of Education, Michigan Department of Treasury and ISD and is not intended to be and should not be used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

A handwritten signature in cursive script that reads "Darrell & Meyering, PC". The signature is written in dark ink and is positioned below the printed name of the firm.

November 1, 2007

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**APPENDIX D**

**SUMMARY OF CERTAIN MICHIGAN  
STATUTORY PROVISIONS PERTAINING  
TO PUBLIC SCHOOL ACADEMIES**

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## **SUMMARY OF CERTAIN MICHIGAN STATUTORY PROVISIONS PERTAINING TO PUBLIC SCHOOL ACADEMIES**

### ***Definition of Public School Academy (M.C.L. § 380.501(1), 380.502(1))***

A public school academy is a state-supported public school that is considered both a body corporate and a governmental agency. According to the statutes, a public school academy corporation must be organized under Michigan's non-profit corporation act, M.C.L. §§ 450.2101 to 450.3192. A public school academy is also considered a school district for purposes of borrowing money and issuing notes and bonds pursuant to M.C.L. § 380.1225 and 380.1351a, respectively, and it is subject to the leadership and general supervision of the state board of public education. The state board of education is responsible for issuing an annual comprehensive report evaluating public school academies to the house and senate committees on education. See M.C.L. § 380.501a.

### ***Sponsors of and Applicants for Public School Academies (M.C.L. § 380.5022)***

Charter contracts may be issued by any one of the following authorizing bodies: (i) local school districts, (ii) intermediate school districts, (iii) community colleges, and (iv) state public universities. Any person interested in operating a public school academy may apply to an authorizing body.

Currently, there is a cap on the number of charter contracts that can be issued by state public universities. The number of contracts for public school academies issued by all state public universities is 150. The number of contracts issued by any one state university shall not exceed 50% of the maximum total that may be issued by state universities.

### ***Method of Establishment and Oversight of Public School Academies (M.C.L. § 380.502(3-7))***

When a person applies for a contract to operate a public school academy, the application must:

- (1) identify the applicant;
- (2) list the proposed members of the board of directors of the public school academy and describe the qualifications and method for appointment or election of the board of directors;
- (3) provide a copy of the proposed articles of incorporation for the public school academy, including (i) the name of the proposed public school academy, (ii) the purposes of the public school academy, (iii) the name of the authorizing body, (iv) the proposed time when the articles of incorporation will be effective, and (v) other matters as necessary;
- (4) provide a copy of the proposed bylaws of the public school academy;
- (5) provide documentation meeting the requirements of the authorizing body, including (i) the governance structure of the public school academy, (ii) a copy of the educational goals of the public school academy, the curricula to be offered, and the methods of pupil assessment, (iii) the admission policy and criteria to be maintained, (iv) the school calendar and school day schedule, and (v) the age or grade range of pupils to be enrolled;
- (6) describe staff responsibilities and the governance structure;
- (7) for an application to a local or intermediate school district or a community college, identify the local and intermediate school districts in which the public school academy will be located;
- (8) agree that the public school academy will comply with all applicable state and federal laws;
- (9) for an application to a school district, assure that employees of the public school academy will be covered by collective bargaining agreements that apply to other public employees in schools; and
- (10) describe and identify the address where the public school academy will be located.

An authorizing body that issues a contract for a public school academy must oversee the public school academy to ensure that the public school academy is in compliance with statutes, rules, and the terms of the contract. If an authorizing body grants a charter contract, it may charge a fee that does not exceed 3% of the total State Aid received by the public school academy in the school year in which the

fees and expenses are charged. An authorizing body may contract with a public school academy for other services aside from the oversight services.

***Legal Status of Public School Academy (M.C.L. § 380.501, § 380.503b)***

A public school academy is a body corporate, a governmental agency, a public school, and is considered a school district under certain provisions of State law. If a public school academy enters into an agreement, mortgage, loan, or other instrument of indebtedness with a third party, such arrangement does not constitute an obligation, either general, special, or moral of the State or the authorizing body. The State or an authorizing body is not liable for any debt incurred by a public school academy.

***Public School Academy Funding (M.C.L. § 388.1601 et. seq.; § 141.2101 et. seq.)***

A public school academy receives funding through the per pupil base foundation, as calculated in the State School Aid Act. The School Aid Act currently provides that pupil membership is based upon a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education (the “Department”). For school districts, including public school academies, which have pupils enrolled in a grade level that was not offered the prior year, pupil membership counts for that grade level are based on an average of the current September count and the following February supplemental count, all as determined by the Michigan Department of Education. A public school academy’s State Aid is sent directly to the academy’s authorizing body, which takes its oversight fee and then forwards the remainder of the aid payments to the public school academy. Pursuant to the State School Aid Act, a school district receives its annual State Aid entitlement in eleven equal installments on dates in October through August, subject to certain statutory adjustments. By law, a public school academy’s State Aid payment must not exceed the per-pupil base foundation received by the local school district in which the public school academy is located.

A public school academy may not charge tuition and may not levy taxes. A public school academy may receive federal grant funds directly from the Department by following the same procedures that local school districts are required to follow. A public school academy may borrow money and may issue bonds in accordance with the Revised School Code, M.C.L. § 380.1 et seq., and the Revised Municipal Finance Act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821.

***Authorizing Body’s Duties With Respect to State Aid Payments (M.C.L. § 380.507, § 380.502(6))***

The authorizing body for a public school academy is the fiscal agent for the public school academy; therefore, it receives state aid payments on behalf of the public school academy and then forwards such aid payments to the public school academy (less a fee that it may charge which does not exceed 3% of the total state aid received by the public school academy in the school year in which the fees and expenses are charged).

***Withholding Payment; Plan for Financing Outstanding Obligation Defaulted Upon by a Public School Academy (M.C.L. § 388.1617a(1) and a(3))***

The Department may withhold all or part of any payment of State Aid that a public school academy is entitled to receive to the extent the withholdings are a component part of a plan, developed and implemented pursuant to the revised municipal finance act, 2001 PA 34, MCL §§ 141.2101 to 141.2821, or other statutory authority, for financing an outstanding obligation upon which the public school academy defaulted. Amounts withheld shall be used to pay, on behalf of the public school academy, unpaid amounts or subsequently due amounts, or both, of principal and interest on the outstanding obligation upon which the public school academy defaulted.



Under an agreement entered into by a public school academy assigning all or a portion of the payment of State Aid that it is eligible to receive to a trustee of a pooled arrangement, such as the Michigan Municipal Bond Authority (the “Authority”), or pledging the amount for payment of an obligation it incurred with a trustee of a pooled arrangement, the state treasurer shall transmit to the Authority or the trustee of a pooled arrangement the amount of the payment of the State Aid that is assigned or pledged under such agreement. Notwithstanding the payment dates prescribed by the State School Aid Act for distributions under the State School Aid Act, the state treasurer may advance all or part of a payment that is dedicated for distribution or for which the appropriation authorizing the payment has been made if and to the extent, under the terms of an agreement entered into by a district or intermediate district and the Authority, the payment that the district or intermediate district is eligible to receive has been assigned to or pledged for payment of an obligation it incurred with the Authority. The above does not require the State to make an appropriation to any public school academy and shall not be construed as creating an indebtedness of the State, and any agreement made pursuant to the above shall contain a statement to that effect.

***Deficit Budget or Operating Deficit (M.C.L. § 388.1702)***

Michigan law provides that a public school academy receiving State Aid shall not adopt or operate under a deficit budget, or incur an operating deficit in any fund, during a school fiscal year. If a public school academy has an existing deficit or incurs a deficit fund balance, such public school academy shall not receive payments under the State School Aid Act until it submits to the Department a budget for the current school fiscal year and a plan for the elimination of the deficit not later than the end of the second school fiscal year after the deficit was incurred. In addition, a public school academy with an existing deficit or which incurs a deficit shall submit to the Department a monthly monitoring report on revenue and expenditures in a form prescribed by the Department. Any State Aid funds that have been withheld from a public school academy due to a deficit will be released to the public school academy after the Department approves the deficit reduction plan and ensures that the budget for the current school fiscal year is balanced.

***Application of Money Received Under State School Aid Act (M.C.L. § 388.1618(1))***

Section 18 of the State School Aid Act provides that not more than 20% of the total amount of State Aid payments received by a public school academy for a given school year may be transferred to either a “capital projects fund” or a “debt retirement fund” for debt service.

The Department determines the reasonableness of expenditures and may withhold State Aid from a public school academy otherwise due for the fiscal year following the discovery by the Department of a violation by the recipient.

***Property of Public School Academy to be Transferred to State (M.C.L. § 388.1618b)***

Property of a public school academy, including title to all real and personal property, interests in real or personal property, and other assets owned by the public school academy, that was acquired substantially with State Aid funds shall be transferred to the State by the public school academy if any of the following occur:

- (a) The public school academy has been ineligible to receive State Aid for 18 consecutive months;
- (b) The public school academy’s charter has been revoked;
- (c) The public school academy’s charter has not been reissued by the authorizing body.

The State treasurer, or his or her designee, is authorized to dispose of property transferred to the State in the fashion described above. Except as otherwise provided above, the State treasurer shall

deposit in the State School Aid Fund any money included in that property and the net proceeds from the sale of the property or interests in property, after payment by the state treasurer of any public school academy debt secured by the property or interest in property.

***Revocation of Charter (M.C.L. § 380.507)***

A charter contract may be revoked by the authorizing body for the following reasons: (1) failure of the public school academy to abide by and meet the educational goals set forth in the contract, (2) failure of the public school academy to comply with all applicable law, (3) failure of the public school academy to meet generally accepted public sector accounting principles, and (4) any other grounds for revocation as specified in the charter contract. The decision to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any state agency.

***Issuance of Contracts (M.C.L. § 380.503)***

Public school academy contracts shall be issued on a competitive basis, while taking the following into consideration: (1) the resources available for the proposed public school academy, (2) the population to be served by the public school academy, and (3) the educational goals to be achieved by the public school academy. With respect to applications to a local school district, if the board of education of the local school district denies an application for a public school academy contract, the person who applied for the contract may petition such board to place the question of the issuance of the contract on a ballot to be decided by the school electors of the school district. The petition must contain the same requirements that are to be included in an application for a charter contract and must be signed by at least 15% of the school electors in that school district.

Within 10 days of issuing a contract for a public school academy, the authorizing body must submit to the superintendent of public instruction a copy of the contract and application. The authorizing body must also adopt a resolution establishing the method of selection, length of term, and number of members of the board of directors of each public school academy subject to its jurisdiction.

A public school academy contract must at least include the following: (1) the educational goals of the public school academy and methods by which it will be held accountable (at a minimum, the pupil performance must be assessed using a Michigan educational assessment program (“MEAP”) test or an assessment instrument developed under the Revised School Code); (2) a description of the method to be used to monitor the public school academy’s compliance with applicable laws and its performance in meeting its educational objectives; (3) a description of the process for amending the contract during the term of the contract; (4) all the matters required to be included in the application to an authorizing body for a charter contract; (5) for public school academies authorized by a school district, an agreement that the employees of the public school academy will be covered by any collective bargaining agreements that apply to the employees of the school district; (6) procedures and grounds for revoking the contract; (7) a description and address of the physical plant in which the public school academy will be located; and (8) requirements and procedures for financial audits, which are to be conducted at least annually by a certified public accountant in accordance with generally accepted governmental auditing principles.

Among the laws with which public school academies must comply are the Revised School Code, the State School Aid Act, the Open Meetings Act, the Freedom of Information Act, the Uniform Budgeting and Accounting Act, the Revised Municipal Finance Act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821, and other state and federal laws applicable to public school academies.

Public school academies and their board members, officers and staff have governmental immunity. Public school academies may acquire, hold, and own in their own name buildings and other property for school purposes and may condemn property if certain conditions are met. Public school

academies are exempt from all taxation on their earnings and property. They may not levy ad valorem property taxes or any other taxes for any purpose.

***Tuition and Admission at Public School Academies (M.C.L. § 380.504)***

A public school academy may not charge tuition and may not discriminate in its pupil admissions policies or practices based on race, disability, religion, gender, test scores, intellectual or athletic ability, measures of achievement or aptitude, or any other basis prohibited by law. However, a public school academy may predetermine the ages, grades, and number of students it will serve. If the number of applications to enroll in the public school academy exceeds the school's enrollment capacity, the public school academy shall use a random selection process for selecting pupils. Public school academies may operate any grades from kindergarten through grade 12 and may also operate early childhood education programs, an adult basic education program, adult high school completion program, or general educational development testing preparation program.

***Additional Powers of Public School Academies (M.C.L. § 380.504a, 380.506)***

In addition to other powers, a public school academy may take action to carry out its educational mission. For that purpose, a public school academy has the power to: (i) sue and be sued, (ii) acquire, hold, and own in its own name real and personal property for educational purposes, and sell or convey the property, (iii) receive, disburse, and pledge funds for lawful purposes, (iv) enter into binding legal agreements with persons or entities as necessary for the operation, management, financing, and maintenance of the public school academy, (v) incur temporary indebtedness as authorized by state statutes, (vi) solicit and accept grants or gifts for educational purposes and establish non-profit corporations for the purpose of assisting the public school academy in furtherance of its public purposes, and (vii) borrow money and issue bonds in accordance with relevant State statutes.

Bonds issued by a public school academy are full faith and credit obligations of the public school academy, pledging the general funds or any other money available for such a purpose. Bonds issued by a public school academy are subject to the Revised Municipal Finance Act.

Public school academies, with the approval of the authorizing body, may employ or contract with personnel as necessary for the operation of the public school academy, prescribe their duties, and fix their compensation.

***Teachers and Noncertified Individuals (M.C.L. § 380.505)***

Teachers in public school academies are subject to the same certification requirements as traditional public schools, with two exceptions. First, public school academies authorized by a state university may use as a classroom teacher a faculty member who is employed full-time by the university and has institutional tenure or is designated as being on tenure track. Second, public school academies authorized by a community college may use as a classroom teacher a full-time faculty member who has at least five years experience in teaching the subject matter he or she is teaching at the public school academy. Public school academies may develop and implement new teaching techniques or make significant revisions to known techniques. Public school academies must report these practices to the authorizing body and the state board.

THE CHARTER SCHOOL LAWS AND SCHOOL AID ACT ARE SUBJECT TO MODIFICATION BY THE MICHIGAN LEGISLATURE. THE AMOUNT, TIMING AND METHODOLOGY FOR CALCULATION OF STATE AID HAS CHANGED SIGNIFICANTLY IN RECENT YEARS, AND IS SUBJECT TO FUTURE LEGISLATIVE CHANGES.

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**APPENDIX E**

**COPY OF THE SETTLEMENT, TENDER AND RELEASE AGREEMENT**

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## SETTLEMENT, TENDER AND RELEASE AGREEMENT

THIS SETTLEMENT, TENDER AND RELEASE AGREEMENT (this "Agreement") is entered into as of this 25th day of July, 2008, by and among CRESCENT ACADEMY, a public school academy operating under the laws of the State of Michigan ("Crescent"), of 17570 W. 12 Mile Road, Southfield, MI 48076, U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee"), of 60 Livingston Avenue, St. Paul, MN 55107, LORD ABBETT MUNICIPAL INCOME TRUST - LORD ABBETT HIGH YIELD MUNICIPAL BOND FUND, of 90 Hudson Street, Jersey City, NJ 07302-3973, PIONEER INVESTMENTS, of 30 Dan Road, Canton, MA 02021-2809, as investment advisor for PIONEER MUNICIPAL HIGH INCOME ADVANTAGE TRUST, WELLS CAPITAL MANAGEMENT, INC. of 525 Market Street, 10th Floor, San Francisco, CA 94105, as investment advisor to WELLS FARGO ADVANTAGE NATIONAL TAX-FREE FUND and WELLS FARGO ADVANTAGE MUNICIPAL BOND FUND, and PACIFIC INVESTMENT MANAGEMENT COMPANY, LLC, as manager of certain funds and accounts (collectively, the "Owners"). Crescent, the Trustee and the Owners are referred to herein as the "Parties".

WHEREAS, there are issued and outstanding \$7,090,000 Full Term Certificates of Participation (Crescent Academy Project), Series 2006 (the "Certificates") under the Declaration of Trust, dated as of December 1, 2006, by the Trustee and joined in by Dr. Charles Drew Academy, a public school academy operating under the laws of the State of Michigan ("Drew") and Crescent (the "Trust Agreement");

WHEREAS, the Owners hold, or in the case of Pacific Investment Management Company, LLC, serve as manager of certain funds and accounts that hold, 100% of the outstanding Certificates as follows:

Lord Abbett Municipal Income Trust- Lord Abbett High Yield Municipal Bond Fund	\$1,650,000
Pioneer Municipal High Income Advantage Trust	\$1,650,000
Wells Fargo Advantage Municipal Bond Fund	\$2,790,000
Pacific Investment Management Company LLC as manager of certain funds and accounts	<u>\$1,000,000</u>
Total	\$7,090,000

(each, a "Proportionate Interest");

WHEREAS, Bay Mills Community College, Crescent's authorizing entity ("Bay Mills"), issued a Notice of Intent to Revoke Crescent's Charter, dated April 17, 2007 (the "Notice of



Intent"), which alleges various irregularities with the transaction pertaining to and including the issuance of the Certificates (the "Transaction"), and required that the Transaction be "unwound";

WHEREAS, Crescent executed a Plan of Correction, dated August 8, 2007, in response to the Notice of Intent which sets forth various actions to be taken by Crescent to retain its charter, including formulating and implementing a plan to "unwind" the Transaction (the "Correction Plan"), and the Owners were subsequently informed of the Notice of Intent and the Correction Plan on or about August 16, 2007;

WHEREAS, Crescent has requested from the Owners a temporary deferral in the payment of certain Purchase Payment Deposits and other amounts due with respect to the Certificates, and a temporary deferral of the declaration of any Event of Default, if any, under the Certificates, the Trust Agreement, the Crescent Agreement, the Drew Agreement and the Unwind Plan and any other documents securing the Certificates (collectively, the "Financing Documents") based, primarily, on the various irregularities with the Transaction cited in the Notice of Intent, and Crescent's obligation to unwind the Transaction under the Correction Plan in order to preserve its charter as required by Bay Mills (collectively "Defaults");

WHEREAS, at the request of Crescent in order to avoid litigation over the Defaults, and provide Crescent time and opportunity to implement its Correction Plan to the satisfaction of Bay Mills, the Owners and the Trustee, and to attempt to mitigate damages suffered by the Owners as a result of Bay Mills' requirement that Crescent unwind the Transaction in order to preserve Crescent's charter and provide Crescent an opportunity to arrange for substitute financing to maintain operations, the parties executed an Unwind Plan and Limited Standstill Agreement, dated February 28, 2008, as amended (the "Unwind Plan"), which sets forth Crescent's plan to unwind the Transaction, contemplating, among other things, (i) a refinancing by Crescent of a portion of the Certificates with a new financing (the "New Financing") and (ii) that any principal of the Certificates which remains outstanding after consummation of the New Financing, any interest on such Certificates, and any other amounts due and payable under the Financing Documents which remain outstanding after consummation of the New Financing shall be payable solely from Third-Party Recoveries (as defined in Section 7);

WHEREAS, it is expected that the Michigan Public Educational Facilities Authority will issue its Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008, in the principal amount of \$3,200,000 for the benefit of Crescent (the "Refunding Bonds") in order to implement the New Financing and refund at least \$2,900,000 of the Certificates on or about July 31, 2008;

WHEREAS, a Limited Offering Memorandum (the "Disclosure Statement") will be printed and distributed to market the Refunding Bonds on or about July 30, 2008;

WHEREAS, the Owners have agreed subject to the terms and conditions of this Agreement to initially purchase the Refunding Bonds so long as the principal amount of and interest rate on such Refunding Bonds are at least \$3,200,000 and 7%, respectively, with a maturity not greater than 30 years, and are as otherwise described in the Refunding Documents (as defined in Section 10 herein);



WHEREAS, MPEFA and/or Crescent will be entering into an obligation to sell the Refunding Bonds under a bond placement agreement or similar agreement (the "BPA") with Fifth Third Securities, Inc., as placement agent for the Refunding Bonds, prior to the issuance of the Refunding Bonds; and

WHEREAS, the parties are entering into this Agreement prior to Bay Mills' approval of this Agreement, the Release (as defined in Section 10 below) and the Refunding Documents for purposes of evidencing and clarifying the Owners' agreement to tender the Certificates, the conditions to and nature of the release of the Assigned Property by the Trustee, and the various other matters pertaining to the Parties' obligations under this Agreement and the consideration therefor.

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby covenant and agree as follows:

1. Definitions. Capitalized terms used and not defined in this Agreement shall have the meaning given such terms in the Trust Agreement (as defined above).

2. Purchase of Refunding Bonds. In order to effectuate the sale of the Refunding Bonds, on the Tender Date (as defined in Section 10) and subject to the conditions stated in Section 10, the Owners agree to purchase the Refunding Bonds, in cash, at par plus accrued interest, if any, on a several (and not joint) basis in the following amounts:

Lord Abbett Municipal Income Trust- Lord Abbett High Yield Municipal Bond Fund	\$745,000
Pioneer Municipal High Income Advantage Trust	\$745,000
Wells Fargo Advantage Municipal Bond Fund	\$1,260,000
Pacific Investment Management Company LLC, as manager of certain funds and accounts	<u>\$450,000</u>
Total	\$3,200,000

3. Tender of Certificates. Subject to the conditions stated in Section 10, on the Tender Date, each Owner shall tender its Proportionate Interest in the Certificates to the Trustee in exchange for its proportionate interest in an amount equal to the sum of the Principal remaining unpaid on the Certificates, plus unpaid interest accrued thereon to the Tender Date, plus all other amounts due or payable under the Financing Documents (such sum, the "Certificate Claim"). A tender under this Section 3 shall be in lieu of compliance with the requirements for redemption or prepayment contained in any Financing Document.

The Certificate Claim shall be payable solely from the following sources: (i) cash from the Certificate Account in an amount not less than the amount derived by application of the provisions of Sections 4, 5 and 6 of this Agreement and (ii) Third Party Recoveries. A tender under this Section 3 may not be waived and an Owner's failure to tender pursuant to this Section 3 shall mean that its Proportionate Interest in the Certificates shall have been deemed delivered for cancellation and to have been exchanged for its proportionate interest of the Certificate Claim on the Tender Date.

4. Application of Reserve Account and the Repair and Replacement Account. Subject to the conditions stated in Section 10, on the Tender Date, any amounts held in the Reserve Account and the Repair and Replacement Account shall be transferred to the Certificate Account for application in accordance with Section 6 of this Agreement.

5. Application of Proceeds of the Refunding Bonds. Subject to the conditions stated in Section 10, on the Tender Date, proceeds of the Refunding Bonds in an amount not less than \$2,900,000 shall be transferred to the Trustee and deposited in the Certificate Account for application in accordance with Section 6 of this Agreement.

6. Application of Certificate Account. Subject to the conditions stated in Section 10, on the Tender Date, the Trustee shall apply moneys in the Certificate Account as follows:

(a) first, in the discretion of the Trustee to the payment of reasonable fees and expenses of the Trustee incurred and to be incurred in connection with this Agreement, the tender of the Certificates and the termination of the Financing Documents immediately thereafter;

(b) second, an amount as directed by the Owners of not less than 66 2/3% in aggregate principal amount of the Certificates to be paid to the law firm of Davis & Ceriani; and

(c) third, the balance remaining in the Certificate Account, after application under clauses (a) and (b) above, shall be paid to the Owners of the Certificates based on their Proportionate Interests in payment of a portion of the Certificate Claim.

7. Third-Party Recoveries as Sole Recourse for Remaining Certificate Claim. From and after satisfaction of the conditions set forth in Section 10, the remaining Certificate Claim due and payable under Section 3 after application of the funds identified in Sections 4, 5 and 6 of this Agreement (the "Remaining Certificate Claim") shall be payable solely from the amounts the Owners recover or have recovered from their claims against third parties related to the Transaction and/or their purchase of the Certificates (the "Third-Party Recoveries") and shall not constitute an obligation, either general, special or moral, of Drew, Crescent, the State of Michigan, the Authority, the Central Michigan University Board of Trustees or the Bay Mills Community College Board of Regents. Upon receipt of the funds identified in Sections 4, 5 and 6 of this Agreement, the Trustee and the Owners acknowledge that Drew, Crescent, the State of Michigan, the Authority, the Central Michigan University Board of Trustees and the Bay Mills

Community College Board of Regents shall have no liability whatsoever arising in any manner from or relating to the Certificates or the Financing Documents, except for the obligations of Crescent under this Agreement and the Release (as defined in Section 10).

8. Tender of Certificates and Release of Assigned Property. Subject to the conditions set forth below in Section 10, on the Tender Date, (i) Drew's and Crescent's obligations under the Certificates and the Financing Documents, as applicable, shall be deemed extinguished (except for Crescent's indemnity obligations to the Trustee for events arising after the Tender Date currently provided for in the Financing Documents), and the Trustee shall give notice of cancellation of the Certificates to DTC, (ii) the Certificates shall be cancelled and the Financing Documents shall cease, terminate and become void except as provided in (i) above, (iii) the Trustee shall deliver to Crescent the Warranty Deed (which Warranty Deed shall be delivered in escrow by the Trustee to the title company for the Refunding Bonds (the "Title Company") prior to the Tender Date), (iv) the Trustee shall execute and deliver such releases of the Assigned Property as may be reasonably requested by Crescent (which documents shall be delivered in escrow by the Trustee to the Title Company prior to the Tender Date); and (v) the Trustee, Crescent and the Owners shall execute and deliver such other documents as may be reasonably requested by any of them to accomplish the purposes of this Agreement and the Release.

9. [Reserved.]

10. Conditions Precedent. The obligations of the Trustee and the Owners under this Agreement shall be subject to the following conditions:

A. Approval of this Agreement, the Release and all documents related to the Refunding Bonds by Bay Mills and either written approval of this Agreement, the Release and all documents related to the Refunding Bonds by Crescent's liability insurer, Employers Mutual Casualty Company ("EMC"), or a written waiver by EMC of any coverage-related defense associated with Crescent's execution of such documents;

B. The indenture, financing agreement, mortgage and state aid agreement for the Refunding Bonds and the opinions of Bond Counsel and Crescent Counsel (the "Basic Refunding Documents") shall be in substantially the forms agreed to by the Parties as of the date hereof, and all other documents relating to the Refunding Bonds (collectively, with the Basic Refunding Documents, the "Refunding Documents") are in form and substance reasonably acceptable to the Parties; the closing of the Refunding Bonds and the execution and delivery of the Refunding Documents; satisfaction of all conditions to the issuance of the Refunding Bonds set forth in the Refunding Documents and the BPA; and the transfer of proceeds of the Refunding Bonds in an amount not less than \$2,900,000 to the Certificate Account for application in accordance with Section 6 of this Agreement;

C. Execution and delivery to the Parties of a fully executed copy of the Mutual Release Agreement in the form set forth in Exhibit A hereto (the "Release"); and



D. Satisfaction of the conditions set forth in A, B, and C of this Section on or before 5:00 p.m., New York City time, on July 31, 2008.

The date on which all of the conditions shall have been met shall be the "Tender Date."

11. Mutual Release. As additional consideration given by the Trustee and the Owners to Crescent and by Crescent to the Trustee and Owners, the parties shall execute and deliver the Release.

12. Escrow Pending Occurrence of Conditions. The Trustee and the Owners recognize that neither MPEFA nor Crescent can enter into a BPA without assurances that the Trustee and Owners will perform their obligations under this Agreement. As such, the Trustee and the Owners shall deliver to Stewart Title, the title company for the Refunding Bonds or Bond Counsel for the Refunding Bonds in escrow, by Monday, July 28, 2008, pursuant to a Escrow Letter substantially in the form attached as Exhibit B (the "Escrow Letter"), the following: (i) the original Certificates or a signed "DWAC" or similar instruction, (ii) the original executed Release, (iii) the original Warranty Deed held in escrow, (iv) original, signed terminations and releases as to the Assigned Property, and (v) such other original, signed documents as reasonably contemplated by this Agreement and the Refunding Documents. If the conditions set forth in Section 10 are not met by 5:00 p.m. New York City time on July 31, 2008 and the parties have not agreed in writing to extend the Tender Date, this Agreement shall be deemed null and void, and the Title Company and Bond Counsel shall return the items as directed in the Escrow Letter.

13. Crescent's Representations and Covenants. Crescent represents and covenants to the Owners and the Trustee as follows:

A. Crescent is duly organized and validly existing as a nonprofit corporation and public school academy under the laws of the State of Michigan, and has full right, power and authority to execute, deliver and perform its obligations under this Agreement and the Release.

B. Crescent has duly authorized (i) the execution and delivery of, and the due performance of its obligations under this Agreement and the Release and (ii) the taking of any and all actions as may be required on the part of Crescent to carry out, give effect to and consummate the transactions contemplated by this Agreement and the Release.

C. This Agreement is, and upon the execution and delivery thereof, the Release will be, the legal, valid and binding obligation of Crescent enforceable in accordance with its terms, except that the binding effect and enforceability of such instruments are subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by application of general principles of equity including those relating to equitable subordination.

14. Trustee's and Owners' Representations and Covenants. Each of the Trustee and the Owners represent and covenant to Crescent as follows:

A. It is duly organized and validly existing under the laws of the state of its organization and has the full right, power and authority to execute, deliver and perform its obligations under this Agreement and the Release.

B. It has duly authorized (i) the execution and delivery of, and the due performance of its obligations under this Agreement and the Release and (ii) the taking of any and all actions as may be required on the part of it to carry out, give effect to and consummate the transactions contemplated by this Agreement and the Release.

C. This Agreement is, and upon the execution and delivery thereof, the Release will be, a legal, valid and binding obligation of such Party and any party which it manages or advises, enforceable in accordance with its terms, except that the binding effect and enforceability of such instruments are subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by application of general principles of equity including those relating to equitable subordination.

15. Governing Law. This Agreement shall be deemed to be a contract under the laws of State of Michigan and, for all purposes, shall be governed by and construed in accordance with the laws thereof.

16. Amendments. Amendments, modifications or waivers of any provision of this Agreement or the documents delivered hereunder or consent to any departure by any Party therefrom shall in no event be effective unless the same shall be in writing signed by all the Parties, and such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

17. Prior Agreements Superseded. This Agreement shall completely and fully supersede all other prior understandings or agreements, including, but not limited to the Financing Documents, both written and oral, between the Parties regarding the subject matter of this Agreement.

18. Execution. The Parties may execute this Agreement by facsimile or in counterparts. A facsimile or photographic copy of this Agreement may be relied upon by either party, or any third party, as if it were an original signature copy. If this Agreement is executed in counterparts, the separate counterpart signature pages shall be combined and treated by the Parties, or any third party, as if the separate counterpart signature pages were part of one original signature copy.

19. Notices. All notices, demands, requests and other communications required pursuant to the provisions of this Agreement shall be in writing, and shall be deemed to have

been properly given or served for all purposes, on the date of receipted delivery, if hand delivered or sent via email (transmission to all Parties confirmed), facsimile (transmission to all Parties confirmed), or by overnight express mail delivery, to the respective Parties addressed as follows:

if to Crescent: Crescent Academy  
17570 W. Twelve Mile Road  
Southfield, Michigan 48076  
Attn: Board President  
Telephone: (248) 423-4581  
Fax: (248) 423-1027

with a copy to: Richard J Landau, Esq.  
RJLandau Partners PLLC  
The Landau Building  
5340 Plymouth Road  
Suite 200  
Ann Arbor, MI 48105  
Telephone: (734) 865-1585  
Fax: (734) 865-1595  
E-Mail: [rjlandau@rjlps.com](mailto:rjlandau@rjlps.com)

Mary Kay Shaver, Esq.  
Varnum, Riddering, Schmidt & Howlett LLP  
Bridgewater Place  
PO Box 352  
Grand Rapids, MI 49501-0352  
Telephone: (616) 336-6000  
Fax: (616) 336-7000  
E-Mail: [mkshaver@varnumlaw.com](mailto:mkshaver@varnumlaw.com)

if to the Trustee: U.S. Bank National Association  
Mail Station EP-MN-WS1D  
60 Livingston Avenue  
St. Paul, MN 55107  
Attn: Susan Jacobsen  
Telephone: (651) 495-3954  
Fax: 651-495-8100  
E-Mail: [susan.jacobsen2@usbank.com](mailto:susan.jacobsen2@usbank.com)

with a copy to: Mintz, Levin, Cohn, Ferris,  
Glovsky and Popeo, P.C.  
One Financial Center  
Boston, MA 02111  
Telephone: (617) 348-1696



Attention: Richard H. Moche, Esq.  
Fax: 617-542-2241  
E-Mail: [rmoche@mintz.com](mailto:rmoche@mintz.com)

If to the Owners: c/o Atty Michael Cillo  
Davis & Ceriani  
1350 17th Street #400  
Denver, CO 80202  
Telephone: (303) 534-9000  
Fax:  
E-Mail: [mcillo@davisandceriani.com](mailto:mcillo@davisandceriani.com)

Any Party may designate a change of address by notice in writing to the other Parties. In no event shall the failure of any Party to furnish courtesy copies of any notice to legal counsel as specified above render ineffective any such notice otherwise given in the manner hereinabove provided.

20. Purpose Of This Settlement Agreement. Crescent recognizes that the undertakings of the Trustee and Owners herein are for the sole purpose of mitigating damages that will occur to Crescent and the Owners if Crescent's charter is revoked by Bay Mills per the Notice of Intent. Except as provided herein, nothing herein is intended by the parties to waive, impair, limit or otherwise effect their claims against third parties, or constitute any form of estoppel, or limit damages that may be collectable by the parties including special, consequential and punitive damages.

21. Successors and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, administrators, executors, successors and assigns.

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement as of the date first above written.

[remainder of page intentionally left blank]

[Signature page to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: Yanick Jackson

Its: Secretary

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST – LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_



[Signature page to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: Susan E. Jorgensen

Its: Vice-President

LORD ABBETT MUNICIPAL INCOME TRUST – LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS

as investment advisor for

PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.

as investment advisor to ~~WELLS FARGO ADVANTAGE~~

~~NATIONAL TAX-FREE FUND AND~~ WELLS FARGO

ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,

LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_

[Signature page to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST - LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By:  \_\_\_\_\_

John K. Forst

Its: Vice President and Assistant Secretary

PIONEER INVESTMENTS

as investment advisor for

PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.

as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

[Signature page to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST – LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND


By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS

as investment advisor for

PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By:  \_\_\_\_\_

Its: VICE PRESIDENT

WELLS CAPITAL MANAGEMENT, INC.

as investment advisor to ~~WELLS FARGO ADVANTAGE~~

~~NATIONAL TAX-FREE FUND AND WELLS FARGO~~

ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_

[Signature page to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST -- LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By:  \_\_\_\_\_  
WELLS CAPITAL MANAGEMENT  
GILBERT L. SOUTHWELL III  
VICE PRESIDENT  
Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_

[Signature page to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST – LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to ~~WELLS FARGO ADVANTAGE~~  
~~NATIONAL TAX-FREE FUND AND WELLS FARGO~~  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC as manager of certain funds and accounts

By:  \_\_\_\_\_

Its:   
Vice President ~~and~~ Portfolio Manager

[Continued Signature page to Settlement, Tender and Release Agreement]

Acknowledged and Consented to by Dr. Charles Drew Academy

Dr. Charles Drew Academy

By: 

Its: President

EXHIBIT A

MUTUAL RELEASE



## MUTUAL RELEASE AGREEMENT

RE: \$7,090,000 Full Term Certificates of Participation (Crescent Academy Project), Series 2006 (the "Certificates")

This Mutual Release Agreement (the "Release") is made and entered into as of the date set forth on the last page of this Release by and among (A) U.S. Bank National Association, ("Trustee"), as trustee in connection with the above referenced Certificates, located at 60 Livingston Avenue, St. Paul, MN 55107, (B) LORD ABBETT MUNICIPAL INCOME TRUST - LORD ABBETT HIGH YIELD MUNICIPAL BOND FUND, located at 90 Hudson Street, Jersey City, NJ 07302-3973, (C) PIONEER INVESTMENTS, located at 30 Dan Road, Canton, MA 02021-2809, as investment advisor for PIONEER MUNICIPAL HIGH INCOME ADVANTAGE TRUST, (D) WELLS CAPITAL MANAGEMENT, INC. located at 525 Market Street, 10th Floor, San Francisco, CA 94105, as investment advisor to WELLS FARGO ADVANTAGE NATIONAL TAX-FREE FUND and WELLS FARGO ADVANTAGE MUNICIPAL BOND FUND, (E) PACIFIC INVESTMENT MANAGEMENT COMPANY, LLC, as manager of certain funds and accounts (individually, each an "Owner" and collectively, the "Owners"), and (F) CRESCENT ACADEMY, a public school academy operating under the laws of the State of Michigan ("Crescent"), located at 17570 W. 12 Mile Road, Southfield, MI 48076. The Trustee and each Owner are collectively referred to as the "Bond Group", and Crescent and members of its former and current board of directors are collectively referred to as the "Crescent Group".

WHEREAS, the Crescent Group and the Bond Group entered into that certain Settlement, Tender And Release Agreement between the Bond Group and the Crescent Group dated as of July \_\_\_\_, 2008 (the "Settlement Agreement"). All capitalized terms not defined herein are defined in the Settlement Agreement.

In consideration for the Bond Group Release and as required by the Settlement Agreement, the Bond Group has required that each member of the Crescent Group unconditionally and irrevocably release, discharge and waive any claims, causes of action, rights, and remedies against any of the members of the Bond Group (EXCEPT AS RESERVED HEREIN IN SECTION 1 BELOW) arising from any and all of the actions or omissions by any member of the Bond Group prior to the date of this Release related in any manner to the Certificates or the Transaction as stated in Section 1 below (the "Crescent Group Release"). In consideration for the Crescent Group Release and as required by the Settlement Agreement, the Crescent Group has required each member of the Bond Group to unconditionally and irrevocably release, discharge and waive any and all of their claims, causes of action, remedies and rights against each member of the Crescent Group (EXCEPT AS RESERVED HEREIN IN SECTION 2 BELOW) arising from any and all of the actions or omissions of the Crescent Group prior to the date of this Release related in any manner to the Certificates or the Transaction as stated in Section 2 below (the "Bond Group Release").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each party hereto, each member of the Bond Group and the Crescent Group agrees as follows:

1. Crescent Group Release; Reservation of Rights By the Crescent Group. Each member of the Crescent Group for itself and all of its respective partners, officers, directors, employees, subsidiaries, affiliates and any of their predecessors, successors (by contract or law), assigns (by contract or law), and all parties claiming under any of the foregoing entities, hereby unconditionally and irrevocably releases and discharges each and every member in the Bond Group and all of their former and current officers, directors, employees, attorneys, investment advisers, administrators, distributors, affiliates and subsidiaries from any and all claims, causes of actions, rights, remedies, damages, liabilities, and expenses, whether now existing or hereafter arising, in any way relating to the Certificates, the Transaction or the Crescent Group prior to the date of this Release, in each case, however arising, EXCEPTING FROM THE FOREGOING CRESCENT GROUP RELEASE AND EXPRESSLY RESERVING TO EACH MEMBER OF THE CRESCENT GROUP ANY CLAIMS, RIGHTS AND REMEDIES AND ANY CAUSES OF ACTION ARISING FROM OR RELATING TO THE SETTLEMENT AGREEMENT OR THE BOND GROUP'S OBLIGATIONS, UNDERTAKINGS AND LIABILITIES RESPECTING OR RELATING TO THE SETTLEMENT AGREEMENT OR THE REFUNDING BONDS.

Notwithstanding anything herein, each member of the Crescent Group for itself and all of its respective partners, officers, directors, employees, subsidiaries, affiliates and any of their predecessors, successors (by contract or law), assigns (by contract or law), and all parties claiming under any of the foregoing entities agrees that it has no action or claim against any member of the Bond Group and any of their former and current officers, directors, employees, attorneys, investment advisers, administrators, distributors, affiliates and subsidiaries arising from any claim or cause of action in any way relating to the Certificates or the Transaction brought against the Crescent Group of any of its members by any person or entity in response to a claim or cause of action brought against such person or entity by any member of the Bond Group.

2. Bond Group Release; Reservation of Rights By the Bond Group. Each member of the Bond Group, for itself and its respective partners, officers, directors, employees, subsidiaries, affiliates, funds and accounts it manages or advises, and any of their predecessors, successors (by contract or law), assigns (by contract or law), and all parties claiming under any of the foregoing entities, hereby unconditionally and irrevocably releases and discharges each and every member in the Crescent Group and all of their former and current officers, directors, employees, shareholders, partners, attorneys, administrators, affiliates and subsidiaries, in their individual, corporate and official capacities, from any and all claims, causes of action, rights, remedies, damages, liabilities, and expenses, whether now existing or hereafter arising, in any way relating to the Certificates, the Transaction or the Crescent Group prior to the date of this Release, in each case, however arising, EXCEPTING FROM THE FOREGOING BOND GROUP RELEASE AND EXPRESSLY RESERVING TO EACH MEMBER OF THE BOND GROUP THE RIGHT TO ASSERT ANY AND ALL CLAIMS, RIGHTS AND REMEDIES AND BRING ANY CAUSE OF ACTION AGAINST THE FOLLOWING PERSONS AND ENTITIES IN ANY CAPACITY OTHER THAN AS (I) AN OFFICER OR DIRECTOR OF CRESCENT, OR (II) SUCH OTHER CAPACITY RESULTING IN COVERAGE OF SUCH PERSON UNDER CRESCENT'S DIRECTOR AND OFFICER LIABILITY POLICY (SUCH CAPACITIES DESCRIBED IN CLAUSES (I) OR (II), AN "INSURED CAPACITY"), (PROVIDED HOWEVER THAT THE BOND GROUP MAY ALLEGE AND PROVE THE RELATIONSHIPS THAT SUCH PERSONS AND ENTITIES HAD WITH THE CRESCENT



GROUP AND MAY ALLEGE AND PROVE ANY AND ALL ACTIONS AND INACTIONS OF SUCH PERSONS AND ENTITIES): (A) MICHAEL WITUCKI NOTWITHSTANDING THAT HE MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (B) KATHLEEN WITUCKI NOTWITHSTANDING THAT SHE MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (C) JEREMY GILLIAM NOTWITHSTANDING THAT HE MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (D) ATTORNEY KEVIN FOLEY, THE LAW FIRM OF ALLEN, JAMES & FOLEY, PC AND THE LAW FIRM FOLEY & ROBINETTE, PC., IN EACH CASE, NOTWITHSTANDING EACH SUCH PERSON OR ENTITY MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (E) HELICON ASSOCIATES, INC., NOTWITHSTANDING SUCH ENTITY MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (F) DARNELL & MEYERING, PC., NOTWITHSTANDING SUCH ENTITY MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (G) THE LAW FIRM OF DORSEY & WHITNEY LLP NOTWITHSTANDING SUCH ENTITY MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (H) MJ MANAGEMENT SERVICES, INC. NOTWITHSTANDING SUCH ENTITY MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY; (I) HERBERT J. SIMS & CO, INC. AND MUNICIPAL CAPITAL MARKETS, INC. NOTWITHSTANDING SUCH ENTITY MAY HAVE SEPARATELY AND/OR SIMULTANEOUSLY ACTED IN AN INSURED CAPACITY AND (J) ANY OTHER PERSON OR ENTITY (OTHER THAN THE CRESCENT GROUP) INVOLVED IN THE ORIGINAL ISSUANCE OF THE CERTIFICATES, BUT NOT IN SUCH PERSON'S INSURED CAPACITY, IF ANY.

WITHOUT LIMITING THE FOREGOING, THE BOND GROUP RELEASE EXPRESSLY EXCLUDES AND HEREBY PRESERVES ANY CLAIMS, RIGHTS AND REMEDIES AND ANY CAUSES OF ACTION RELATING TO ANY MATTERS REGARDING ANY MEMBER OF THE CRESCENT GROUP'S INVOLVEMENT IN THE ISSUANCE OF THE REFUNDING BONDS AND OBLIGATIONS, UNDERTAKINGS AND LIABILITIES RESPECTING OR RELATING TO THE REFUNDING BONDS.

Notwithstanding anything herein, each member of the Bond Group for itself and all of its respective partners, officers, directors, employees, subsidiaries, affiliates, funds and accounts it manages or advises, and any of their predecessors, successors (by contract or law), assigns (by contract or law), and all parties claiming under any of the foregoing entities agrees that it has no action or claim against any member of the Crescent Group and any of their former and current officers, directors, employees, attorneys, investment advisers, administrators, distributors, affiliates and subsidiaries arising from any claim or cause of action in any way relating to the Certificates or the Transaction brought against the Bond Group or any of its members by any person or entity in response to a claim or cause of action brought against such person or entity by any member of the Crescent Group.

3. Cooperation In Providing Information to the Bond Group. Except as limited by Crescent's liability insurance policy, each member of the Crescent Group hereby agrees to cooperate as reasonably requested by the Bond Group or their attorneys in furnishing books and

records relating to the Certificates or the Transaction, providing historical, factual and/or background information relating to the Certificates or the Transaction, and in discussing the same with the Bond Group or their attorneys.

4. Representations. (a) Each of the signatory parties hereto represents and warrants that: (i) there has been no assignment, pledge, security interest or other transfer of any interest in any claim, demand or cause of action which any of the parties may have against each other; and (ii) each signatory is authorized to execute this Release, bind itself to all the provisions of this Release, and make all of the undertakings contained herein without the further consent or approval of any other party (including any insurer or regulatory agency).

(b) Each party acknowledges that it has had ample opportunity to investigate all matters covered in this Release and consult with counsel as to the effects of execution of this Release; and each party has executed this Release voluntarily and with full knowledge of all facts, and such execution was not based on coercion or duress of any kind.

5. Counterparts. This Release may be signed in multiple counterparts, which taken together shall constitute one original.

6. Entire Release. This Release and the Settlement Agreement constitute the entire agreement of the parties with respect to the matters herein and its provisions may not be amended, waived or supplemented except by written instrument executed by all parties hereto.

7. Severability. The Crescent Group Release and the Bond Group Release are separate and independent releases to each member in the Bond Group and Crescent Group, respectively, notwithstanding they are contained in this one Release. Each release by each party is supported by independent and separate consideration, may be enforced against each breaching party independently without the joinder of any non-breaching party. The breach of the Release by one party shall not effect the validity and enforceability of the releases made by the other parties contained herein.

8. Applicable Law. The interpretation, validity and enforcement of this Release is governed by the laws of the State of Michigan (irrespective of such state's choice of laws).

IN WITNESS WHEREOF, the undersigned have caused this Release to be executed by their duly authorized officers or representatives as of this \_\_\_\_ day of July, 2008.

[Remainder of Page Left Intentionally Blank.]

Signature Page to Mutual Release

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST – LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND and WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_

EXHIBIT B

ESCROW LETTER



July 25, 2008

**Via Overnight Delivery**

David Martyn  
Stewart Title Guaranty Company  
National Title Services  
333 W. Fort Street, Suite 1450  
Detroit, MI 48226  
("Stewart")

Mary Kay Shaver, Esq.  
Varnum, Riddering, Schmidt & Howlett LLP  
Bridgewater Place  
PO Box 352  
Grand Rapids, MI 49501-0352  
("Bond Counsel")

*Re: Crescent Academy, Southfield, Michigan*

Dear David and Mary Kay:

This letter sets forth the terms and conditions upon which we are delivering to you (each, an "Escrow Agent"), to hold in escrow the documents noted on Exhibit A-1 (the "Stewart Escrow Documents") and Exhibit A-2 (the "Varnum Escrow Documents" and, collectively with the Stewart Escrow Documents, the "Escrow Documents"), respectively, in connection with the \$3,200,000 Limited Obligation Revenue Refunding Bonds, Series 2008 (the "Bonds") issued by the Michigan Public Educational Facilities Authority (the "Authority"). The Bonds are being issued pursuant to a Trust Indenture, dated as of July 1, 2008, between the Authority and U.S. Bank National Association, as Trustee (the "Bond Trustee"), for the benefit of Crescent Academy, a public school academy operating under the laws of the State of Michigan. The Pre-Closing for the Bonds will be held on July 30, 2008, at 12:00 p.m. Eastern time, at the offices of Varnum, Riddering, Schmidt & Howlett LLP, Bridgewater Place, 201 N. Washington Square, Suite 810, Lansing, Michigan 48993. The Closing will be held telephonically at 10:00 a.m., Eastern time, on July 31, 2008.

Each of you, as Escrow Agent, hereby agrees that the Escrow Documents delivered to you shall not be released from escrow (provided, however, that Stewart may provide executed copies of the Stewart Escrow Documents to Bond Counsel at the Pre-Closing, to be held in escrow by Bond Counsel subject to the terms and conditions herein) unless and until the following terms and conditions have been satisfied:

**Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.**



July \_\_\_\_, 2008

Page 2

1. Bond Counsel shall have certified via email or facsimile to each of you, me and Colin McNiece that she is in possession of fully executed originals or copies, as applicable, of the documents noted on Exhibit B;
2. Stewart is in possession of fully executed forms of the documents listed in Exhibit C;
3. Upon recording the Stewart Escrow Documents, Stewart is irrevocably committed to issue a Lender's Title Policy in the form and substance as the Stewart's Pro Forma Policy attached hereto as Exhibit D;
4. U.S. Bank National Association, as Bond Trustee shall have certified via email or facsimile to each of you, me and Colin McNiece ([cmcniece@mintz.com](mailto:cmcniece@mintz.com)) that it has received readily available funds from Fifth Third Securities, Inc. as Placement Agent (the "Placement Agent"), in the amount of \$2,900,000 (the "Closing Funds") and that it is prepared and irrevocably committed to initiate a transfer of the Closing Funds in immediately available funds to U.S. Bank National Association, as trustee for the \$7,090,000 Full Term Certificates of Participation (Crescent Academy Project), Series 2006 (the "Certificate Trustee"), upon the closing of the Bonds;
5. Bond Counsel, Brian Lefler as representative of the Placement Agent, and Christine Robinette, as representative of the Bond Trustee, shall have confirmed to you telephonically, preferably by conference call, that they are prepared to close the New Financing; and
6. You have received authorization via fax or email from either me or Colin McNiece to release the Escrow Documents.

We expect that steps 5 and 6 will be accomplished simultaneously at such time as they are ready to be accomplished.

Only when all of the foregoing terms and conditions have been satisfied, you shall cause originals of the Escrow Documents held by you to be released from escrow and (i) the documents identified on Exhibit C shall be recorded by Stewart at the Oakland County Records in accordance with the order of recording set forth in Exhibit C; (ii) a transcript of the proceedings shall be delivered by Bond Counsel to me; (iii) Stewart shall issue the Lender's Title Insurance Policy in the form attached hereto as Exhibit D; and (iv) Bond Counsel is authorized to void the Warranty Deed.

If the foregoing conditions have not be satisfied by 5:00 pm New York City time on July 31, 2008, you shall return the Escrow Documents to me or Colin McNiece unless you have received further written instructions to the contrary from me or Colin McNiece.

July \_\_\_\_, 2008  
Page 3

Please indicate your acceptance of the terms and conditions contained herein by countersigning a copy of this letter and returning the same to Colin McNiece via e-mail or facsimile (617) 542-2241. Thank you.

Very truly yours,

Richard Moche

**ACCEPTED AND AGREED TO:**

**STEWART TITLE GUARANTY COMPANY**

By: \_\_\_\_\_  
Name: David Martyn  
Title:

**VARNUM, RIDDERING, SCHMIDT & HOWLETT LLP**

By: \_\_\_\_\_  
Name: Mary Kay Shaver, Esq.

cc (via e-mail):      Gabriel Schnitzler, Esquire  
                             Colin McNiece, Esquire  
                             Joseph Urban, Esq.  
                             Donna Bergamo  
                             Brian Lefler  
                             Terrence Donnelly, Esq.  
                             Rhonda Welburn, Esq.

**Exhibit A-1**

**STEWART ESCROW DOCUMENTS**

1. Executed Termination of Trust Agreement Relating to the Prior Obligations
2. Discharge of UCC-1 Financing Statement Relating to the Prior Obligations ("Oakland County")

**Exhibit A-2**

**VARNUM ESCROW DOCUMENTS**

1. Executed Investor Letter for each Purchaser
2. Executed Holder Direction to Trustee Regarding Cancellation of Certificates and Transfer of Funds Relating to the Prior Obligations
3. Notice of Final Distribution and Cancellation of Certificates Relating to the Prior Obligations
4. Mutual Release Agreement executed by each Certificate Holder and the Certificate Trustee
5. Warranty Deed Relating to the Prior Obligations
6. Executed Certificate of Beneficial Ownership
7. Discharge of UCC-1 Financing Statement Relating to the Prior Obligations ("State of Michigan")

July \_\_\_\_, 2008

Page 5

**Exhibit B**

**Documents to be delivered to and held by Bond Counsel  
[Attach closing memorandum]**

**Exhibit C**

**Order of Recording**

1. Termination of Trust Agreement Relating to the Prior Obligations
2. Discharge of UCC-1 Financing Statement Relating to the Prior Obligations
3. Mortgage
4. UCC-1 Financing Statement

**Exhibit D**

**Title Commitment**



**FIRST AMENDMENT TO  
SETTLEMENT, TENDER AND RELEASE AGREEMENT**

THIS FIRST AMENDMENT TO SETTLEMENT, TENDER AND RELEASE AGREEMENT (this "Amendment") is entered into as of this 28th day of July, 2008, by and among CRESCENT ACADEMY, a public school academy operating under the laws of the State of Michigan ("Crescent"), of 17570 W. 12 Mile Road, Southfield, MI 48076, U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee"), of 60 Livingston Avenue, St. Paul, MN 55107, LORD ABBETT MUNICIPAL INCOME TRUST - LORD ABBETT HIGH YIELD MUNICIPAL BOND FUND, of 90 Hudson Street, Jersey City, NJ 07302-3973, PIONEER INVESTMENTS, of 30 Dan Road, Canton, MA 02021-2809, as investment advisor for PIONEER MUNICIPAL HIGH INCOME ADVANTAGE TRUST, WELLS CAPITAL MANAGEMENT, INC. of 525 Market Street, 10th Floor, San Francisco, CA 94105, as investment advisor to WELLS FARGO ADVANTAGE NATIONAL TAX-FREE FUND and WELLS FARGO ADVANTAGE MUNICIPAL BOND FUND, and PACIFIC INVESTMENT MANAGEMENT COMPANY, LLC, as manager of certain funds and accounts (collectively, the "Owners"). Crescent, the Trustee and the Owners are referred to herein as the "Parties".

WHEREAS, the Parties entered into that certain Settlement, Tender and Release Agreement, dated July 25, 2008 (the "Settlement Agreement");

WHEREAS, one of the conditions precedent to the effectiveness of the Settlement Agreement was the approval by the Bay Mills Community College Board ("Bay Mills") of the Settlement Agreement, the Release and all of the documents related to the Refunding Bonds; and

WHEREAS, Bay Mills has conditioned its approval of the Settlement Agreement, the Release and all of the documents related to the Refunding Bonds on the inclusion of certain provisions in the Settlement Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby covenant and agree as follows:

1. Definitions. Capitalized terms used and not defined in this Amendment shall have the meaning given such terms in the Settlement Agreement (as defined above).

2. Disclosure of Third-Party Recoveries. Section 22 of the Settlement Agreement is added in its entirety as follows:

22. Disclosure of Third-Party Recoveries. The Owners shall disclose to Bay Mills a listing of Third-Party Recoveries, including the amount of such Third-Party Recoveries and the name of the person or entity either from which or on behalf of, if paid by a third party insurer or other third party, such Third-Party Recovery is received.



3. Release of Bay Mills. Section 23 of the Settlement Agreement is added in its entirety as follows:

23. Release of Bay Mills. Crescent and each of the Owners for itself and its respective partners, officers, directors, employees, subsidiaries, affiliates, funds and accounts it manages or advises, and any of their predecessors, successors (by contract or law), assigns (by contract or law), and all parties claiming under any of the foregoing entities, hereby unconditionally and irrevocably releases and discharges Bay Mills and Bay Mills Community College Board of Regents and all of their respective partners, officers, directors, employees, subsidiaries, affiliates and any of their predecessors, successors (by contract or law), assigns (by contract or law), in their individual, corporate and official capacities, from any and all claims, causes of action, rights, remedies, damages, liabilities, and expenses, whether now existing or hereafter arising, in any way related to the Certificates, the Transaction, the Notice of Intent, the Correction Plan, this Settlement Agreement, or the Refunding Bonds.

4. Crescent's Representations and Covenants. Crescent represents and covenants to the Owners and the Trustee the following;

A. It has duly authorized (i) the execution and delivery of, and the due performance of its obligations under this Amendment and (ii) the taking of any and all actions as may be required on the part of Crescent to carry out, give effect to and consummate the transactions contemplated by this Amendment.

B. This Amendment is a legal, valid and binding obligation of Crescent enforceable in accordance with its terms, except that the binding effect and enforceability of such instruments are subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by application of general principles of equity including those relating to equitable subordination.

5. Trustee's and Owners' Representations and Covenants. Each of the Trustee and the Owners represent and covenant to Crescent as follows:

A. It has duly authorized (i) the execution and delivery of, and the due performance of its obligations under this Amendment and (ii) the taking of any and all actions as may be required on the part of it to carry out, give effect to and consummate the transactions contemplated by this Amendment.

B. This Amendment is a legal, valid and binding obligation of such Party and any party which it manages or advises, enforceable in accordance with its terms, except that the binding effect and enforceability of such instruments are subject to applicable

bankruptcy, insolvency, reorganization, moratorium and similar laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by application of general principles of equity including those relating to equitable subordination.

6. Governing Law. This Amendment shall be deemed to be a contract under the laws of State of Michigan and, for all purposes, shall be governed by and construed in accordance with the laws thereof.

7. Execution. The Parties may execute this Amendment by facsimile or in counterparts. A facsimile or photographic copy of this Amendment may be relied upon by either party, or any third party, as if it were an original signature copy. If this Amendment is executed in counterparts, the separate counterpart signature pages shall be combined and treated by the Parties, or any third party, as if the separate counterpart signature pages were part of one original signature copy.

8. Successors and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, administrators, executors, successors and assigns.

9. Ratification. This Amendment is intended to modify the Settlement Agreement as specifically stated herein. All other paragraphs, provisions and clauses in the Settlement Agreement remain in full force and effect as originally set forth therein.

IN WITNESS WHEREOF, the Parties hereto have duly executed this Amendment as of the date first above written.

[remainder of page intentionally left blank]

[Signature page to First Amendment to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: Tamara Jackson

Its: Secretary

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST -- LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_

[Signature page to First Amendment to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: *Sharon E. Jacobsen*

Its: *Vice President*

LORD ABBETT MUNICIPAL INCOME TRUST -- LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_

[Signature page to First Amendment to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST - LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By:  \_\_\_\_\_

Its: *Vice President* \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_



[Signature page to First Amendment to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST – LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS

as investment advisor for

PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By:  \_\_\_\_\_

Its:  \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.

as investment advisor to

WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_

[Signature page to First Amendment to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST -- LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By:  **WELLS CAPITAL MANAGEMENT  
GILBERT L. SOUTHWELL III  
VICE PRESIDENT**

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By: \_\_\_\_\_

Its: \_\_\_\_\_



[Signature page to First Amendment to Settlement, Tender and Release Agreement]

CRESCENT ACADEMY

By: \_\_\_\_\_

Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

LORD ABBETT MUNICIPAL INCOME TRUST – LORD  
ABBETT HIGH YIELD MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PIONEER INVESTMENTS  
as investment advisor for  
PIONEER MUNICIPAL HIGH INCOME ADVANTAGE  
TRUST

By: \_\_\_\_\_

Its: \_\_\_\_\_

WELLS CAPITAL MANAGEMENT, INC.  
as investment advisor to WELLS FARGO ADVANTAGE  
NATIONAL TAX-FREE FUND AND WELLS FARGO  
ADVANTAGE MUNICIPAL BOND FUND

By: \_\_\_\_\_

Its: \_\_\_\_\_

PACIFIC INVESTMENT MANAGEMENT COMPANY,  
LLC, as manager of certain funds and accounts

By:  \_\_\_\_\_

Its: *Executive Vice President and Portfolio Manager*

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**APPENDIX F**

**FORMS OF THE TRUST INDENTURE AND  
THE FINANCING AGREEMENT**

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**TRUST INDENTURE**

**BETWEEN**

---

---

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**

**AND**

**U.S. BANK NATIONAL ASSOCIATION**

**as Trustee**

---

---

**RELATING TO:**

**\$3,200,000**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**  
**LIMITED OBLIGATION REVENUE REFUNDING BONDS**  
**(CRESCENT ACADEMY PROJECT), SERIES 2008**

**Dated as of July 1, 2008**

## TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS .....	5
Section 1.01. Definitions. ....	5
ARTICLE II THE BONDS .....	13
Section 2.01. Authorized Amount of Bonds. ....	13
Section 2.02. Issuance of Bonds. ....	13
Section 2.03. Execution; Limited Obligation.....	14
Section 2.04. Certificate of Authentication.....	14
Section 2.05. Form of Series 2008 Bonds.....	14
Section 2.06. Delivery of Series 2008 Bonds. ....	14
Section 2.07. Mutilated, Lost, Stolen or Destroyed Bonds. ....	15
Section 2.08. Exchangeability and Transfer of Bonds; Persons Treated as Owners. ....	16
Section 2.09. Cancellation. ....	17
Section 2.10. Ratably Secured. ....	17
Section 2.11. Redemption of Series 2008 Bonds.....	17
Section 2.12. Partial Redemption of Bonds. ....	17
Section 2.13. Notice of Redemption. ....	18
Section 2.14. Book-Entry Only Registration of the Bonds. ....	18
Section 2.15. CUSIP Numbers. ....	20
Section 2.16. Additional Bonds. ....	20
ARTICLE III SECURITY; COVENANTS AND AGREEMENTS OF THE AUTHORITY.....	22
Section 3.01. Security. ....	22
Section 3.02. Payment of Bonds and Performance of Covenants. ....	22
Section 3.03. Authority.....	22
Section 3.04. No Litigation.....	23
Section 3.05. Further Assurances.....	23
Section 3.06. No Other Encumbrances. ....	23
Section 3.07. No Recourse.....	23
Section 3.08. No Personal Liability. ....	23
Section 3.09. Tax Status .....	26
ARTICLE IV FUNDS .....	24
Section 4.01. Establishment and Use of Bond Fund.....	24
Section 4.02. Establishment, Use and Maintenance of Reserve Fund. ....	25
Section 4.03. Establishment and Use of Project Fund. ....	26
Section 4.04. Deposit of Series 2008 Bond Proceeds. ....	26
Section 4.05. Account Statements. ....	26
Section 4.06. Investment of Fund Moneys. ....	26
Section 4.07. Arbitrage.....	27
Section 4.08. Repayment to the Academy From the Funds. ....	27
Section 4.09. Repayment to the Authority From the Authority Funded Reserve Account. ....	27
ARTICLE V DISCHARGE OF LIEN.....	27
Section 5.01. Discharge of Lien and Security Interest.....	27

Section 5.02. Provision for Payment of Bonds .....	28
Section 5.03. Discharge of this Indenture .....	28
Section 5.04. Unclaimed Moneys .....	29
ARTICLE VI DEFAULT PROVISIONS AND REMEDIES .....	29
Section 6.01. Events of Default .....	29
Section 6.02. Acceleration .....	29
Section 6.03. Other Remedies; Rights of Bondholders.....	30
Section 6.04. Right of Bondholders to Direct Proceedings. ....	31
Section 6.05. Discontinuance of Default Proceedings.....	32
Section 6.06. Waiver.....	32
Section 6.07. Application of Moneys. ....	32
ARTICLE VII THE TRUSTEE.....	33
Section 7.01. Appointment .....	33
Section 7.02. Fees, Expenses .....	35
Section 7.03. Intervention in Litigation .....	36
Section 7.04. Resignation; Appointment of Successor Trustee; Successor Trustee Upon Merger, Consolidation or Sale. ....	36
Section 7.05. Removal of Trustee.....	36
Section 7.06. Instruments of Bondholders .....	37
Section 7.07. Appointment of Separate or Co-Trustee. ....	37
ARTICLE VIII AMENDMENTS, SUPPLEMENTAL INDENTURES.....	38
Section 8.01. Supplemental Indentures.....	38
Section 8.02. Amendments to Indenture; Consent of Bondholders and the Academy. ....	38
Section 8.03. Amendments to Financing Agreement Not Requiring Consent of Bondholders. ....	39
Section 8.04. Amendments to Financing Agreement Requiring Consent of Bondholders. ....	39
Section 8.05. Amendments, Changes and Modifications to the Financing Agreement. ....	39
Section 8.06. Notice to and Consent of Bondholders. ....	40
ARTICLE IX MISCELLANEOUS .....	40
Section 9.01. Limitation of Rights .....	40
Section 9.02. Severability .....	40
Section 9.03. Notices .....	40
Section 9.04. Additional Notices to Rating Agencies.....	41
Section 9.05. Payments Due on Non-Business Days.....	41
Section 9.06. Interest Computation.....	41
Section 9.07. Binding Effect.....	41
Section 9.08. Captions .....	41
Section 9.09. Governing Law .....	41
Section 9.10. Execution in Counterparts.....	42
ARTICLE X REQUESTS FOR INFORMATION .....	42
Section 10.01. Periodic Academy Filings.....	42
Section 10.02. Requests to the Academy.....	42
Section 10.03. Requests to Authorizing Body .....	43



EXHIBIT A	Form of Fixed Rate Series 2008 Bond.....	A-1
EXHIBIT B	Description of Series 2008 Bonds.....	B-1

## **TRUST INDENTURE**

**THIS TRUST INDENTURE** ("Indenture") dated as of July 1, 2008, between the **MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**, a public body corporate (the "Authority"), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association, as trustee, and its successor in trust and its assignees (the "Trustee").

WHEREAS, the Authority has been created pursuant to the Enabling Legislation for, among other purposes, the purpose of lending money to public school academies;

WHEREAS, the Authority is authorized to carry out the public purposes described in and contemplated by the Enabling Legislation by purchasing municipal obligations from public school academies and obtaining funds to make loans by issuing revenue bonds;

WHEREAS, the Authority has determined that the purchase of the Academy's Municipal Obligation will further the purposes of the Enabling Legislation, will benefit the people of the State, will assist the Academy in fulfilling its needs, will provide for the orderly marketing of municipal obligations and will reduce the costs of borrowing to the Academy;

WHEREAS, the Revised School Code, PA 451 of 1976, as amended (the "School Code") authorizes public school academies to acquire real and personal property or interests in real or personal property, and finance their activities by purchase, gift, grant, devise, bequest, lease, sublease, installment purchase agreement, land contract option or condemnation and subject to mortgages, security interests or other liens;

WHEREAS, the School Code also authorizes public school academies to borrow money and issue bonds to defray all or a part of the cost of purchasing, erecting, completing, remodeling, or equipping, or reequipping, except for equipping or reequipping for technology, school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities; furnishing or refurnishing new or remodeled school buildings; acquiring, preparing, developing, or improving sites, or parts of or additions to sites, for school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities; purchasing school buses; acquiring, installing, or equipping or reequipping school buildings for technology or accomplishing a combination of the foregoing purposes;

WHEREAS, the School Code also authorizes public school academies to issue refunding bonds in accordance with Article VI of the Revised Municipal Finance Act, PA 34 of 2002, as amended;

WHEREAS, Crescent Academy (the "Academy") has requested that the Authority assist in implementing the Academy Refunding;

WHEREAS, the Authority wishes to provide for the issuance of the Bonds for the purpose of providing funds to implement the Academy Refunding and to pay certain expenses incidental to the issuance of the Series 2008 Bonds;

WHEREAS, the Authority determines and declares that the Academy Refunding as contemplated by the Financing Agreement and this Indenture, is necessary in order to realize the objectives and purposes of the Enabling Legislation and fulfills a valid public purpose;

WHEREAS, as security for the payment of the Bonds issued pursuant to this Indenture, the Authority has agreed to assign and pledge to the Trustee, the Security (as hereinafter defined); and

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued and delivered as provided in this Indenture, the legal, valid, binding and enforceable limited obligations of the Authority, according to the import thereof, and to create a valid assignment and pledge of the Security to the payment of the

Bonds have been done and performed, and the execution and delivery of this Indenture and the execution, issuance and delivery of the Bonds, subject to the terms hereof, have in all respects been authorized.

**NOW, THEREFORE**, in consideration of the premises and of the covenants and undertakings herein expressed, the parties hereto agree as follows:

## **ARTICLE I**

### **DEFINITIONS**

#### **Section 1.01. Definitions.**

All terms used herein which are not defined herein but are defined in the Financing Agreement identified below shall have the meanings therein set forth, which definitions are by this reference incorporated herein and made a part hereof. In addition to terms elsewhere defined in this Indenture, the following words and terms as used in this Indenture and the preambles hereto shall have the following meanings unless the context or use clearly indicates another or different meaning or intent and such definitions shall be equally applicable to both the singular and plural forms of the terms and words herein defined:

**"Academy"** means Crescent Academy, a public school academy, organized and existing under the laws of the State of Michigan, and their successors and assigns.

**"Academy Fiscal Year"** means the period commencing on the first day of July and ending on the last day of June of each year or such other twelve month period as may be designated by the Academy as the fiscal year of the Academy.

**"Academy Funded Reserve Account"** means the account by that name established within the Reserve Fund pursuant to Section 4.02 of this Indenture funded by Series 2008 Bond proceeds and Additional Bond proceeds or other funds of the Academy.

**"Academy Repayments"** means all amounts required to be paid by the Academy to the Authority (and the Trustee as the assignee of the Authority) pursuant to the Financing Agreement.

**"Academy Reserve Fund Requirement"** means an amount equal to the Reserve Fund Requirement less the Authority Contribution.

**"Academy Refunding"** means the Academy's refinancing of the Existing Indebtedness To Be Discharged.

**"Additional Bonds"** means the additional bonds which are authorized to be issued in one or more series from time to time under Section 2.16 hereof.

**"Authority"** means the Michigan Public Educational Facilities Authority, created pursuant to the Enabling Legislation, or any successor to its rights and obligations under the Financing Agreement and this Indenture.

**"Authority Contribution"** means an amount equal to the initial amount of the Grant Funds.

**"Authority Funded Reserve Account"** means the account by that name established within the Reserve Fund pursuant to Section 4.02 of this Indenture funded by Grant Funds or other funds of the Authority authorized to be used for such purposes by the Executive Director or other authorized officer of the Authority.

**"Authorized Denominations"** means denominations of \$100,000 or any integral multiple of \$2,500 in excess thereof.

**"Beneficial Owner"** means, when the Bonds are held in a book-entry only system, the owner of a Bond or portion thereof for federal income tax purposes.

**"Bond"** or **"Bonds"** means the Series 2008 Bonds and any Additional Bonds authorized to be issued hereunder.

**"Bond Counsel"** means a firm of nationally recognized attorneys at law acceptable to the Authority and experienced in legal work relating to the issuance of bonds the interest on which is excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

**"Bond Fund"** means the fund created by Section 4.01 of this Indenture.

**"Bond Payment Date"** means any of the dates specified in this Indenture for payment of principal of and interest on the Bonds, i.e., the first day of April and October of each year with respect to interest, commencing April 1, 2009 and the first day of October with respect to principal, commencing October 1, 2009, all in the years shown in Exhibit A until the respective Bonds are paid in accordance with their terms.

**"Bond Placement Agreement"** means the Bond Placement Agreement relating to the initial purchase of the Bonds, dated July 30, 2008, among the Authority, the Academy, and the Placement Agent.

**"Bond Register"** means the books of the Authority kept by the Trustee to evidence the registration, transfer and exchange of Bonds.

**"Bond Resolution"** means the resolution adopted by the Authority on July 30, 2008, authorizing and approving the issuance and sale of the Bonds pursuant to this Indenture.

**"Bond Year"** means any twelve month period beginning October 1.

**"Bondholder"** or **"holder"** means the Registered Owner of any Bond.

**"Business Day"** means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions in the city in which the designated corporate trust office of the Trustee (or its bond registrar, paying agent or tender agent offices) is located, or (iv) a day on which the New York Stock Exchange is closed or the payment system of the Federal Reserve is not operational.

**"Charter School"** means a public school, as defined by the U.S. Department of Education in conjunction with the Credit Enhancement for Charter School Facilities Program, that:

- (a) in accordance with specific State statute authorizing the granting of charters to schools, is exempted from significant State or local rules that inhibit the flexible operation and management of public schools, but not from any rules relating to the other requirements of this paragraph;
- (b) is created by a developer as a public school, or is adapted by a developer from an existing public school, and is operated under public supervisions and direction;
- (c) has a specific set of educational objectives determined by the school's developer and agreed to by the authorized public chartering agency;
- (d) provides a program of elementary or secondary education, or both;
- (e) is nonsectarian in its programs, admissions policies, employment practices, and all other operations, and is not affiliated with a sectarian school or religious institution;
- (f) does not charge tuition;

(g) complies with the Age Discrimination Act of 1975, Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, section 504 of the Rehabilitation Act of 1973, and part B of the Individuals with Disabilities Education Act;

(h) is a school to which parents choose to send their children, and that admits students on the basis of a lottery, if more students apply for admission than can be accommodated;

(i) agrees to comply with the same Federal and State audit requirements as do other elementary and secondary schools in the State, unless such requirements are specifically waived;

(j) meets all applicable Federal, State, and local health and safety requirements;

(k) operates in accordance with State law; and

(l) has a written performance contract with the authorized public chartering agency in the State that includes a description of how student performance will be measured in charter schools pursuant to State assessments that are required of other schools and pursuant to any other assessments mutually agreeable to the authorized public chartering agency and the charter school.

**"Code"** means the Internal Revenue Code of 1986, as amended, and the rulings and regulations (including temporary and proposed) promulgated thereunder and under the Internal Revenue Code of 1954, as amended.

**"Counsel"** means an attorney, or firm thereof, admitted to practice law before the highest court of any state in the United States of America or the District of Columbia.

**"Depository"** means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book-entry system to record ownership of book-entry interests in Bonds, and to effect transfers of book entry interests in Bonds in book-entry form, the use of which will not impair the federal tax exemption of interest on the Bonds, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

**"Determination of Taxability"** means a determination that the interest income on any of the Bonds is included in gross income for federal income tax purposes, which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

(a) the day on which the Academy or the Authority is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that, based upon any filings of the Academy or the Authority, or upon any review or audit of the Academy or the Authority, or upon any other grounds whatsoever, the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner thereof;

(b) the day on which the Academy receives notice from the Trustee in writing that the Trustee has been advised in writing by any current or former holder or Beneficial Owner of a Bond that the Internal Revenue Service has issued a statutory notice of deficiency or similar notice to such current or former holder or Beneficial Owner which asserts in effect that the interest on the Bonds received by such current or former holder or Beneficial Owner is includable for federal income tax purposes in the gross income of such current or former holder or Beneficial Owner;

(c) the day on which the Academy or the Authority is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that there has been issued a public or private ruling of the Internal Revenue Service or a technical advice memorandum issued by the national office of the Internal Revenue Service that the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond;

(d) the day on which the Academy or the Authority is advised in writing that a final determination, from which no further right of appeal exists, has been made by a court of competent

jurisdiction in the United States of America in a proceeding with respect to which the Academy has been given written notice and an opportunity to participate and defend that the interest on the Bonds is includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond; or

(e) the date specified in a written opinion to the Academy from Bond Counsel as the day on which interest on the Bonds first became or will become includable for federal income tax purposes in the gross income of any current or former holder or Beneficial Owner of a Bond;

provided, however, no Determination of Taxability shall occur under subparagraph (a), (b) or (c) of this paragraph unless the Academy has been afforded the opportunity, at its expense, to contest any such conclusion and/or assessment after furnishing the Trustee and the Authority, within 30 days after the occurrence of an event described in subparagraph (a), (b) or (c) of this paragraph, with an opinion of Bond Counsel to the effect that there is a reasonable likelihood that the Academy will prevail in such contest, and, further, no Determination of Taxability shall occur until such contest, if made, has been finally determined. The Academy shall promptly notify the Trustee and the Authority of any event described in subparagraph (a), (c), (d) or (e) of this paragraph and shall further promptly notify the Trustee and the Authority of any final determination if the Academy has contested under subparagraph (a), (b) or (c) of this paragraph. The Academy shall be deemed to have been afforded the opportunity to contest the occurrence of a Determination of Taxability if it shall have been permitted to commence and maintain any action in the name of any current or former holder or Beneficial Owner of a Bond to judgment and through any appeals therefrom or other proceedings related thereto.

**"Earnings"** shall mean investment income consisting only of such interest and dividends derived from investment of moneys deposited in the Authority Funded Reserve Account of the Reserve Fund.

**"Eligible Investments"** shall mean such of the following as shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended:

- (a) with respect to all funds and accounts other than the Authority Funded Reserve Account:
  - (i) Governmental Obligations;
  - (ii) Any bonds or other obligations of any state of the United States of America or of any local governmental unit of any such state which (a) are rated at the time of purchase in the highest rating category by Standard & Poor's Ratings Services based on an escrow, (b) are not callable unless irrevocable instructions have been given to the trustee of such bonds to give due notice of redemption and to call such bonds for redemption on the date(s) specified in such instructions, and (c) are secured by cash and/or Governmental Obligations;
  - (iii) Direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided such obligations are rated at the time of purchase in either of the two highest rating categories by Standard & Poor's Ratings Services;
  - (iv) Obligations of any state of the United States of America or any local governmental unit of any such state which shall be rated at the time of purchase in the highest rating category by Standard & Poor's Ratings Services;
  - (v) Certificates that evidence ownership of the right to payments of principal or interest on the obligations described in clause (i), provided that (a) such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under Section 8.04 of this Indenture; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Governmental Obligations; and (c) the underlying Governmental Obligations are held in a special account separate from the custodian's general assets, and are not available to

satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated;

(vi) Certificates of deposit, whether negotiable or nonnegotiable, and banker's acceptances of any bank in the United States whose deposits are insured by the Federal Deposit Insurance Corporation or its successor, or any savings and loan association in the United States whose deposits are insured by the Federal Deposit Insurance Corporation or its successor, provided that such certificate of deposit or banker's acceptance is from a bank or from a savings and loan association having a combined capital and surplus aggregating at least Fifty Million Dollars (\$50,000,000) provided further that such certificate of deposit or banker's acceptance is secured by Governmental Obligations with a market value equal to the principal amount of such certificate of deposit or banker's acceptance over the amount guaranteed by the Federal Deposit Insurance Corporation or its successor, and provided further that such certificate of deposit or banker's acceptance is rated at least A-1+ by Standard & Poor's Ratings Services at the time of purchase and has a maturity of not more than 365 days;

(vii) U.S. dollar denominated deposit accounts, federal funds with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase, provided such investments are permitted by 1855 PA 105, as amended. (Ratings on holding companies are not considered as the rating of the bank). The Trustee may conclusively rely upon the Authority's instructions as to compliance with such act;

(viii) Commercial paper of a United States corporation or finance company, other than that issued by bank holding companies, rated at the date of investment in the highest rating category by Standard & Poor's Ratings Services;

(ix) to the extent approved by the State Treasurer, debentures or notes issued by any of the following Federal agencies: Bank for Cooperatives, Federal Intermediate Credit Bank, Federal Loan Bank, Export-Import Bank of the United States, Government National Mortgage Association or Federal Land Bank (including participation certificates issued by such Associations) and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, and

(x) Securities of, or other interests in, a no-load, open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. §§80a-1 to 80a-64 (including those for which the Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise), so long as the portfolio of the investment company or investment trust is limited to (i) United States Governmental Obligations and repurchase agreements fully collateralized by United States Governmental Obligations and the investment company or investment trust takes delivery of the collateral for any repurchase agreement either directly or through an authorized custodian or (ii) securities of, or other investments in, an investment company or investment trust which meets the foregoing requirements, and is rated at least AAAm or AAAm-G by Standard & Poor's Ratings Services; and

(b) with respect to the Authority Funded Reserve Account:

(i) Obligations issued or guaranteed by the United States Government so long as the maturity of such obligations does not exceed three (3) years;

(ii) Obligations of instrumentalities or agencies of the United States or government-sponsored enterprises so long as the maturity of such obligations does not exceed three (3) years;



(iii) Obligations issued by or guaranteed by any state, provided such obligations are rated in the two highest rating categories of a Rating Agency so long as the maturity of such obligations does not exceed three (3) years;

(iv) Commercial paper, repurchase agreements, guaranteed investment contracts or other similar instruments issued by corporations that are organized and operating within the United States having assets in excess of \$500 million and having a short-term rating in the highest rating category of a Rating Agency and a long-term rating in one of the two highest rating categories;

(v) Money market funds that invest solely in United States Government securities or in the United States agency securities from issuers under categories (a) through (d) of this section;

(vi) Certificates of deposit (with no more than \$100,000 purchased from a single financial institution) that are fully insured by the Federal Deposit Insurance Corporation, including certificates of deposit acquired through the Certificate of Deposit Account Registry Service that meet these criteria; and

(vii) Such other investment securities as the Secretary of the United States Department of Education may determine comply with the statutory provisions and terms of the Credit Enhancement for Charter School Facilities Program or its successor program. The Trustee may conclusively rely on a written certificate of the Authority as to the eligibility of such additional investment options, so long as such other investments do not have a maturity longer than three (3) years.

Ratings of Eligible Investments referred to herein shall be determined at the time of purchase of such Eligible Investments and without regard to ratings subcategories. The Trustee shall have no responsibility to monitor the ratings of Eligible Investments after the initial purchase of such Eligible Investments.

**"Enabling Legislation"** shall mean Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended.

**"Environmental Indemnity Agreement"** means the Environmental Indemnity Agreement, dated as of July 1, 2008, entered into by the Academy in favor of the Trustee.

**"Event of Default"** means any of the events specified in Section 6.01 hereof.

**"Financing Agreement"** means the Financing Agreement dated as of July 1, 2008, between the Authority and the Academy, as the same may be amended or supplemented from time to time as permitted thereby.

**"Governmental Obligations"** means (i) direct obligations of the United States of America (including obligations issued or held in book-entry form), (ii) obligations and timely payment of and interest on which are fully guaranteed by the United States of America, (iii) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (i) and (ii) provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a special account separate from the general assets of such custodian, and (iv) municipal obligations the timely payment of the principal and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clause (i), (ii) or (iii); provided such obligations are not subject to call by the obligor for redemption prior to maturity, have been called for redemption prior to maturity or, if subject to call by the obligor for redemption prior to maturity, such right to call the obligation for redemption prior to maturity has been waived; provided, however, Governmental Obligations shall not include any investment which is prohibited or not permitted by the Enabling Legislation.

**"Grant Funds"** means funds obtained by the Authority from a grant obtained from the United States Department of Education which the Authority has determined to use to fund the Authority Funded Reserve Account of the Reserve Fund in the initial amount of \$262,900.

**"Indenture"** means this Trust Indenture, as amended or supplemented from time to time as permitted hereby.

**"Interest Payment Date"** means each April 1 and October 1, commencing April 1, 2009.

**"Investment Income"** means the earnings and profits derived from the investment of moneys in the Project Fund, the Academy Funded Reserve Account of the Reserve Fund and Bond Fund pursuant to ARTICLE IV.

**"Issue Date"** means July 31, 2008, the date the Bonds are issued.

**"Letter of Representations"** means the blanket agreements of the Authority and the Trustee to comply with the operational arrangements of The Depository Trust Company and any similar agreements with respect to a successor Depository.

**"Majority of the Bondholders"** mean the holders of the majority of aggregate principal amount of the Outstanding Bonds.

**"Mortgage"** means the Future Advance Mortgage, dated as of July 1, 2008, from the Academy in favor of the Trustee with respect to the Site.

**"Municipal Obligation"** means the School Building and Site Refunding Bond, Series 2008, of the Academy dated July 31, 2008.

**"Mutual Release Agreement"** means the Mutual Release Agreement, dated July \_\_, 2008 among the Academy and the prior trustee and certificate holders of the Existing Indebtedness To Be Discharged.

**"Outstanding"**, when used with reference to the Bonds at any date as of which the amount of Outstanding Bonds is to be determined, means all Bonds which have been authenticated and delivered by the Trustee hereunder, except:

- (a) Bonds canceled or delivered for cancellation at or prior to such date;
- (b) Bonds, or portions thereof, for the payment or prepayment of which funds shall have been deposited with the Trustee (whether on or prior to the maturity or prepayment date of any such Bonds); provided, however that if such Bonds are to be redeemed prior to maturity thereof, notice of such prepayment shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee;
- (c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to ARTICLE II hereof; and
- (d) For purposes of any consent, request, demand, authorization, direction, notice, waiver or other action to be taken by the holders of a specified percentage of Outstanding Bonds hereunder, all Bonds held by or for the account of the Authority or the Academy, except that for purposes of any such consent, request, demand, authorization, direction, notice, waiver or action the Trustee shall be obligated to consider as not being Outstanding only Bonds of which the Trustee has actual notice to be so held.

**"Participant" or "Participants"** means securities brokers and dealers, banks, trust companies and clearing corporations which participate in the Depository with respect to the Bonds.

**"Person"** means any natural person, firm, partnership, association, limited liability company, corporation, or public body.

**"Placement Agent"** means Fifth Third Securities, Inc. and any successor thereto.

**"Project Fund"** means the fund created by Section 4.03 of this Indenture.

**"Rating Agency"** means Moody's Investors Service and/or Standard & Poor's Ratings Services and/or Fitch Ratings or their successors and assigns, according to which of such rating agencies then rates the Bonds; and provided that if neither of such rating agencies then rates the Bonds, the term "Rating Agency" shall be deemed to refer to any nationally recognized securities rating agency.

**"Record Date"** means with respect to each Interest Payment Date, the Trustee's close of business on the fifteenth day of the calendar month next preceding such Interest Payment Date, regardless whether such day is a Business Day.

**"Registered Owner"** means the person or persons in whose name or names a Bond is registered on the registration books of the Authority maintained by the Trustee for that purpose in accordance with the terms of this Indenture.

**"Reserve Fund"** means the fund established pursuant to Section 4.02 of this Indenture and which shall be entitled "U.S. Bank National Association, f/b/o Michigan Public Educational Facilities Authority Crescent Academy Project 2008 Debt Service Reserve Fund".

**"Reserve Fund Payments"** means all payments required of the Academy to replenish any deficiency in the Reserve Fund.

**"Reserve Fund Requirement"** means an amount equal to the lesser of (i) the maximum annual principal and interest requirements on the Series 2008 Bonds and any Additional Bonds for the then-current or any succeeding Bond Year, (ii) 125% of the average annual principal and interest requirements on the Series 2008 Bonds and any Additional Bonds, or (iii) 10% of the original principal amount of the Series 2008 Bonds and any Additional Bonds (net of original issue discount), determined at the time of initial issuance of the Series 2008 Bonds and any Additional Bonds and on the first day of each Academy Fiscal Year thereafter while any Series 2008 Bonds or Additional Bonds are Outstanding. Upon the written consent of a Majority of Bondholders, the Reserve Fund Requirement for the Reserve Fund may be satisfied by delivery to the Trustee of a Reserve Fund Security Instrument.

**"Reserve Fund Security Instrument"** means a letter a credit, line of credit, policy of insurance, surety bond or similar instrument which will provide for the payment of all or part of the amounts required to be disbursed from the Reserve Fund; provided that the Reserve Fund Security Instrument shall not result in a reduction of any rating on the Bonds.

**"Revenue Account"** means the account by that name established within the Bond Fund pursuant to Section 4.01 of this Indenture.

**"Security"** means the revenues (including Academy Repayments), funds, rights and interests specified in Section 3.01 of this Indenture.

**"Series 2008 Bonds"** means the \$3,200,000 Michigan Public Educational Facilities Authority Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008.

**"Settlement, Tender and Release Agreement"** means the Settlement, Tender and Release Agreement, dated July 25, 2008 and the First Amendment to Settlement, Tender and Release Agreement, dated July \_\_, 2008, among the Academy and the trustee and the certificate holders of the Existing Indebtedness To Be Discharged.

**"State"** means the State of Michigan.

**"State Aid Intercept Account"** means the account by that name established within the Bond Fund pursuant to Section 4.01 of this Indenture.

**"Trustee"** means U.S. Bank National Association, a national banking association, acting in its capacity as the trustee under this Indenture, and any permitted successor trustee under ARTICLE VII of this Indenture.

**"Unassigned Rights"** means the right of the Authority to make all determinations and approvals and receive all notices accorded to it under the Financing Agreement and to enforce in its name and for its own benefit the provisions of Sections 407, 502 and 903 of the Financing Agreement with respect to the Authority fees and expenses and indemnity payments as the interests of the Authority and related persons shall appear.

## **ARTICLE II**

### **THE BONDS**

#### **Section 2.01. Authorized Amount of Bonds.**

No Bonds may be issued under the provisions of this Indenture, except in accordance with this Article. Pursuant to the Bond Resolution, the total principal amount of Series 2008 Bonds that may be issued and Outstanding hereunder is expressly limited to \$3,200,000, subject to the provisions of Section 2.16 hereof. The Bonds are issued for the purpose of enabling the Authority to purchase the Academy's Municipal Obligation. The Municipal Obligation shall be in Fully Marketable Form (as defined in the Enabling Legislation) and otherwise satisfactory to the Authority. The proceeds of the Authority's purchase of the Municipal Obligation shall be used to make a deposit (i) to the Project Fund for the purpose of implementing the Academy Refunding and paying the Costs of Issuance and (ii) to the Academy Funded Reserve Account of the Reserve Fund in the amount of the Academy Reserve Fund Requirement in the amount of \$0.00. The Authority shall deposit in the Authority Funded Reserve Account of the Reserve Fund, an amount equal to the Authority Contribution.

#### **Section 2.02. Issuance of Bonds.**

The Series 2008 Bonds (i) shall be designated the "Michigan Public Educational Facilities Authority Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008", (ii) shall be dated the Issue Date, (iii) shall bear interest from the Issue Date at the rates provided in Exhibit B hereto until the Authority's obligation with respect to payment of the principal is discharged, computed on a 360-day year of twelve 30-day months, and (iv) shall mature at the times and in the principal amounts provided in Exhibit B hereto.

The Series 2008 Bonds shall be issued as registered bonds without coupons and shall be issued in Authorized Denominations. The Series 2008 Bonds shall be numbered consecutively from R-1 upwards bearing numbers not then contemporaneously outstanding (in order of issuance) according to the records of the Trustee.

The principal of and the redemption premium, if any, and the interest on the Bonds shall be payable in lawful money of the United States of America. The principal of and redemption premium, if any, on the Series 2008 Bonds shall be payable at the principal corporate trust or other designated office of the Trustee. The interest on the Series 2008 Bonds shall be paid by check or draft of the Trustee mailed to the Persons in whose names the Series 2008 Bonds are registered on the Bond Register at the close of business on the Record Date next preceding each Interest Payment Date; provided, however, any registered holder of Series 2008 Bonds in the aggregate principal amount of \$250,000 or more as of the close of business on the Record Date preceding any Interest Payment Date may, by prior written instructions filed with the Trustee on or before the second Business Day preceding such Record Date (which instructions shall remain in effect until revoked by subsequent written instructions), instruct that interest payments for any period be made by wire transfer to any bank located in the continental United States.

If any payment of interest or principal or redemption premium on the Series 2008 Bonds is due on a date not a Business Day, payment shall be made on the next succeeding Business Day with the same force and effect as if made on the date which is fixed for such payment, and no interest shall accrue on such amount for the period after such due date.

The provisions of the Series 2008 Bonds shall control to the extent of any conflict with the provisions hereof.

### **Section 2.03. Execution; Limited Obligation.**

The Series 2008 Bonds shall be executed on behalf of the Authority with the manual or facsimile signature of one of its members or one of its authorized officers. All authorized facsimile signatures shall have the same force and effect as if manually signed. In case any official of the Authority whose signature or facsimile signature shall appear on the Series 2008 Bonds shall cease to be such official before the delivery of such Series 2008 Bonds, such signature or facsimile signature shall nevertheless be valid and sufficient for all purposes, the same as if such official had remained in office until delivery. The Series 2008 Bonds may be signed on behalf of the Authority by such persons who, at the time of the execution of such Series 2008 Bonds, are duly authorized or hold the appropriate office of the Authority, although on the date of the Series 2008 Bonds such persons were not so authorized or did not hold such offices.

The Series 2008 Bonds and any Additional Bonds, together with interest thereon and redemption premium with respect thereto, are limited obligations of the Authority secured by the Financing Agreement and, if applicable, the Reserve Fund, are and shall always be payable solely from the revenues and income derived from the Financing Agreement (except to the extent paid out of moneys attributable to proceeds of the Bonds or the income from the temporary investment thereof), are and shall always be a valid claim of the holders thereof only against the revenues and income derived from the Financing Agreement and from other instruments assigned to or held by the Trustee, which revenues and income shall be used for no other purpose than to pay the principal installments of, redemption premium, if any, and interest on the Bonds, except as may be expressly authorized otherwise in this Indenture or the Financing Agreement. The Bonds and the obligation to pay interest thereon and redemption premiums with respect thereto do not now and shall never constitute an indebtedness or an obligation of the Authority or the State of Michigan, within the purview of any constitutional limitation or provision, or a charge against the general credit or taxing powers, if any, of either of them, but shall be secured by the Security, and shall be payable solely from the revenues and income derived from the Financing Agreement. No owner of the Bonds shall have the right to compel the exercise of the taxing power, if any, of the State of Michigan to pay any principal installment of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

### **Section 2.04. Certificate of Authentication.**

No Series 2008 Bonds shall be secured hereby or entitled to the benefit hereof or shall be or become valid or obligatory for any purpose unless there shall be endorsed thereon a certificate of authentication, substantially as set forth in the form of Series 2008 Bond attached hereto as Exhibit A, executed by an authorized officer of the Trustee; and such certificate on any Series 2008 Bond issued by the Authority shall be conclusive evidence and the only competent evidence that it has been duly authenticated and delivered hereunder.

### **Section 2.05. Form of Series 2008 Bonds.**

The Series 2008 Bonds shall be substantially in the form attached as Exhibit A with such changes as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or of any securities exchange on which the Series 2008 Bonds may be listed or any usage or requirement of law or practice with respect thereto.

### **Section 2.06. Delivery of Series 2008 Bonds.**

Upon the execution and delivery hereof, the Authority shall execute the Series 2008 Bonds and deliver them to the Trustee, and the Trustee shall authenticate the Series 2008 Bonds and deliver them to the Placement Agent for the account of the Placement Agent, by delivery to the Depository.

Prior to or simultaneously with the authentication and delivery of the Series 2008 Bonds by the Trustee, there shall be filed with the Trustee:

(a) A copy, certified by an authorized officer of the Authority, of all resolutions adopted and proceedings had by the Authority authorizing the issuance of the Series 2008 Bonds, including the Bond Resolution;

(b) An original executed counterpart of this Indenture, the Financing Agreement, the Bond Placement Agreement, the Mortgage and the State Aid Agreement;

(c) An original executed counterpart of the nonarbitrage and tax compliance certificate of the Academy relating to the Series 2008 Bonds dated the Issue Date, in form and substance satisfactory to Bond Counsel and the Attorney General of the State of Michigan;

(d) Closing certificates of the Academy and the Authority in form and substance satisfactory to Bond Counsel and the Attorney General of the State of Michigan;

(e) A copy of completed IRS Form 8038-G to be filed by or on behalf of the Authority pursuant to Section 149(e) of the Code;

(f) An original executed counterpart of the nonarbitrage certificate of the Authority establishing its reasonable expectations to the effect that the Series 2008 Bonds will not be "arbitrage bonds" within the meaning of Section 148(a) of the Code;

(g) An opinion of Bond Counsel addressed to the Authority, the Trustee and the original Bondholders and an opinion of the Attorney General of the State of Michigan addressed to the Authority to the effect that the interest on the Series 2008 Bonds is excludable from gross income of the holders thereof for federal income tax purposes (other than any interest which may be includable as a preference item or adjustment item in computing any minimum tax) and that this Indenture and the Series 2008 Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding agreements of the Authority;

(h) An opinion of Counsel for the Academy addressed to the Authority and the Trustee to the effect that the Academy Documents have been duly authorized, executed and delivered by the Academy and are legal, valid and binding agreements of the Academy, together with such additional matters as may be requested by Bond Counsel or the Attorney General of the State of Michigan;

(i) A request and authorization to the Trustee on behalf of the Authority and signed by an authorized officer of the Authority directing the Trustee to authenticate and deliver the Series 2008 Bonds in such specified denominations as permitted herein to the Placement Agent for the account of the Placement Agent, by delivery to the Depository, upon payment to the Trustee, but for the account of the Authority, of the aggregate principal amount of the Series 2008 Bonds, plus accrued interest, if any;

(j) Evidence satisfactory to the Trustee that the Authority and the Trustee have delivered executed Letters of Representations to the Depository;

(k) Evidence satisfactory to the Trustee that there has been paid into the Authority Funded Reserve Fund any amounts required by this Indenture;

(l) An original, executed counterpart of the Settlement, Tender and Release Agreement and the Mutual Release Agreement; and

(m) Such other documents, opinions of Counsel and certificates as the Trustee, the Attorney General or Bond Counsel may require or as may be required by the Bond Placement Agreement.

Upon receipt of the foregoing, the Trustee shall authenticate and deliver the Series 2008 Bonds as provided above.

## **Section 2.07. Mutilated, Lost, Stolen or Destroyed Bonds.**

If any Bond is mutilated, lost, stolen or destroyed, the Authority may execute and the Trustee may authenticate and deliver a new Bond of the same maturity, interest rate, principal amount and tenor in lieu of and in



substitution for the Bond mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee, and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the Authority and the Trustee evidence satisfactory to each of them of the ownership of such Bond and of such loss, theft or destruction, together with indemnity satisfactory to the Trustee and the Authority and compliance with such other reasonable requirements as the Authority and Trustee may prescribe. The replacement of any Bond under this Section shall be in accordance with Michigan Compiled Laws Annotated Section 129.131 et. seq. If any such Bond shall have matured or a redemption date pertaining thereto shall have passed, instead of issuing a new Bond the Authority may pay the same without surrender thereof. The Authority and the Trustee may charge the holder of such Bond with their reasonable fees and expenses in this connection.

## **Section 2.08. Exchangeability and Transfer of Bonds; Persons Treated as Owners.**

The Authority shall cause the Bond Register to be kept by the Trustee, which is hereby constituted and appointed the bond registrar for the Bonds.

Any holder of a Bond, in person or by his duly authorized attorney, may transfer title to his Bond on the Bond Register, upon surrender thereof at the designated corporate trust office of the Trustee, together with a written instrument of transfer (in substantially the form of assignment attached to the Bond) executed by the holder or his duly authorized attorney. Upon surrender for registration of transfer of any Bond, the Authority shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds of the same aggregate principal amount and tenor as the Bond surrendered and of any Authorized Denomination.

The Trustee shall also maintain a list of Beneficial Owners from time to time in accordance with this Section 2.08. The list shall be initially established at the time that the Bonds are issued, by each Beneficial Owner providing the Trustee written certification of its beneficial ownership, accompanied by evidence thereof reasonably satisfactory to the Trustee, and setting forth its address. Commencing October 1, 2009 and each October 1 thereafter, in the event that the Trustee has not received an annual certification as to beneficial ownership for a Beneficial Owner as contemplated by this Section 2.08, such Beneficial Owner shall be removed from the list; provided, however, that a Beneficial Owner may certify its beneficial ownership at any time and thereby be placed on the list of Beneficial Owners, subject to removal and listing provided herein. A copy of any notice or report sent hereunder to Registered Owners shall also be sent to Beneficial Owners and any consent, request, direction, approval, objection or other instrument or action required or permitted by this Indenture to be executed or taken by any Registered Owner (other than the transfer of a Bond) shall be fully effective if executed or taken by the Beneficial Owner thereof; provided, however, in the event of conflicting instruments executed by a Registered Owner and a Beneficial Owner, the action of the Registered Owner shall govern.

Bonds may be exchanged upon surrender thereof at the designated corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee executed by the Bondholder or his attorney duly authorized in writing, for an equal aggregate principal amount of Bonds of the same aggregate principal amount and tenor as the Bonds being exchanged and of any Authorized Denomination. The Authority shall execute and the Trustee shall authenticate and deliver Bonds which the Bondholder making the exchange is entitled to receive, bearing numbers not contemporaneously then outstanding.

Such registrations of transfers or exchanges of Bonds shall be without charge to the holders of such Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the holder of the Bond requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege. Any service charge made by the Trustee for any such registration, transfer or exchange shall be paid by the Academy.

The Trustee shall not register any transfer of any Bond (or portion thereof) after notice calling such Bond (or portion thereof) for redemption or partial redemption has been given unless the holder delivers to the Trustee a written statement acknowledging that such Bond has been called for redemption and the date of such redemption.

The Person in whose name any Bond is registered on the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, except that payment of or on account of either principal, premium, if any, or interest shall be made only to or upon the order of the holder of record as of the Record Date or its duly



authorized attorney, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

So long as the Bonds are held in book-entry form, the Authority shall execute and the Trustee shall authenticate a Bond to be held by the Depository, which (i) shall be denominated in an amount equal to the aggregate principal amount of Bonds to be held by the Depository (provided that, unless such Bond is being issued on the Issue Date, the Trustee has received a like aggregate principal amount of Bonds for transfer in accordance with this Section 2.08), (ii) shall be registered in the name of the Depository or its nominee in accordance with this Section 2.08, (iii) shall be delivered by the Trustee to the Depository or pursuant to the Depository's instructions, and (iv) shall bear a legend substantially to the effect that unless the Bond is presented by an authorized representative of the Depository to the Authority or its agent for registration of transfer, exchange or payment, any transfer, exchange, pledge or other use for value or otherwise is wrongful.

All Bonds issued upon any transfer or exchange of Bonds shall be valid and binding limited obligations of the Authority, evidencing the same debt, and entitled to the same security and benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

In executing any Bond upon any exchange or transfer provided for in this Section, the Authority may rely conclusively on a representation of the Trustee that such execution is required.

### **Section 2.09. Cancellation.**

Matured Bonds and Bonds redeemed prior to maturity (as provided in Section 2.11) delivered to the Trustee shall be canceled. The Trustee shall cremate or otherwise destroy canceled Bonds and shall not reissue such Bonds and shall deliver a certificate of destruction to the Authority and the Academy. If the Trustee for its own account or the Academy shall acquire any of the Bonds, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Bonds unless and until the same are delivered to the Trustee for cancellation.

### **Section 2.10. Ratably Secured.**

All Bonds issued hereunder are and are to be, to the extent provided in this Indenture, equally and ratably secured by this Indenture without preference, priority or distinction on account of the actual time or times of the authentication or delivery or maturity of the Bonds so that, subject as aforesaid, all Bonds at any time Outstanding hereunder shall have the same right, lien and preference under and by virtue of this Indenture and shall all be equally and ratably secured hereby with like effect as if they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same, or any of them, shall actually be disposed of at such date, or some future date, except with respect to the Reserve Fund. The Reserve Fund secures the Series 2008 Bonds and any Additional Bonds issued hereunder.

### **Section 2.11. Redemption of Series 2008 Bonds.**

(a) **Optional Redemption.** The Series 2008 Bonds are subject to optional redemption prior to maturity at the option of the Authority upon the direction of the Academy, all as provided in the form of Series 2008 Bonds set forth in Exhibit A upon notice as provided in the form of Series 2008 Bonds.

(b) **Mandatory Redemption.** The Series 2008 Bonds which are term bonds shall be subject to mandatory redemption as provided in the form of Series 2008 Bonds, and shall be redeemed prior to maturity in accordance with the redemption requirements set forth in Exhibit B attached hereto.

### **Section 2.12. Partial Redemption of Bonds.**

If less than all the Outstanding Bonds are called for redemption, the Trustee shall select, or arrange for the selection of, the Bonds to be redeemed by lot, in such manner as it shall in its discretion determine; provided that any such Bonds selected for redemption shall be in Authorized Denominations and no Bond may be redeemed in

part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination. If less than the principal amount of a Bond is called for redemption, the Authority shall execute and the Trustee shall authenticate and deliver, upon surrender of such Bond, without charge to the holder thereof, in exchange for the unredeemed principal amount of such Bond, at the option of such holder, Bonds in any of the Authorized Denominations.

### **Section 2.13. Notice of Redemption.**

Notice of redemption shall be mailed by the Trustee by first class mail at least thirty (30) days but not more than forty-five (45) days before any redemption date to the Registered Owner of each Bond to be redeemed in whole or in part at its last address appearing on the Bond Register; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bond, or portion thereof with respect to which no such failure or defect has occurred. In addition, the Trustee may give such other notice or notices as may be recommended in releases, letters, pronouncements or other writings of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. No defect in or delay or failure in giving any recommended notice described in the preceding sentence shall in any manner affect the notice of redemption described in the first sentence of this Section 2.13. Any notice mailed as provided in this Section 2.13 shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice.

All notices of redemption shall state:

- (a) the redemption date;
- (b) the redemption price;
- (c) the identification, including complete designation and issue date of the series of Bonds of which such Bonds are a part and the CUSIP number (and in the case of partial redemption, the respective principal amounts), interest rate and maturity date of the Bonds to be redeemed;
- (d) that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after such date; and
- (e) The name and address of the Trustee for such Bonds, including the name and telephone number of a contact person and the place where such Bonds are to be surrendered for payment of the redemption price.

All Bonds so called for redemption will cease to bear interest on the specified date set for redemption, provided moneys for their redemption have been duly deposited with the Trustee. Thereafter, the holders of such Bonds called for redemption shall have no rights in respect thereof except to receive payment of the redemption price from the Trustee and a new Bond in an Authorized Denomination for any portion not redeemed.

### **Section 2.14. Book-Entry Only Registration of the Bonds.**

- (a) Except as provided in subparagraph (c) of this Section 2.14, the Registered Owner of all of the Bonds shall be, and the Bonds shall be registered in the name of, Cede & Co. ("Cede"), as nominee of the Depository. Payment of interest on any Bond, as applicable, shall be made in accordance herewith for the account of Cede on each Interest Payment Date at the address indicated for Cede in the Bond Register.
- (b) The Bonds shall be initially issued in the form of a single fully-registered Bond in the aggregate principal amount of the Bonds. Upon initial issuance, the ownership of each such Bond shall be registered on the Bond Register in the name of Cede, as nominee of the Depository. With respect to the Bonds so registered in the name of Cede, the Authority, the Academy and the Trustee, shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, Cede or any Participant or any nominee of a Beneficial Owner with respect to any beneficial ownership interest in the Bonds, (ii) the delivery to any

Participant, Beneficial Owner or other person, other than the Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any Participant, Beneficial Owner or other person, other than Cede, as nominee of the Depository, of any amount with respect to the principal or redemption price of, or interest on, the Bonds. The Authority, the Academy and the Trustee may treat and deem Cede, as nominee of the Depository, as the absolute owner of each Bond for all purposes whatsoever, including (but not limited to) (i) payment of the principal or redemption price of, and interest on, such Bonds, (ii) giving notices of redemption and other matters with respect to such Bonds and (iii) registering transfers with respect to such Bonds. The Trustee shall pay the principal or redemption price of, and interest on, all Bonds only to or upon the order of Cede, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to such principal redemption price and interest, to the extent of the sum or sums so paid. So long as the Bonds are book-entry-only, no person other than the Depository shall receive a Bond evidencing the obligation of the Authority to make payments of principal of and interest on, the Bonds pursuant to this Indenture. Upon delivery by the Depository to the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of Cede, and subject to the transfer provisions of this Indenture, the word "Cede" herein shall refer to such new nominee of the Depository; provided that, notwithstanding any provision of this Indenture to the contrary, until the termination of the book-entry-only system, the Bonds may be transferred in whole, but not in part, only to a nominee of the Depository, or by a nominee of the Depository to the Depository or any nominee thereof.

(c) (1) The Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law.

(2) The Authority, at the sole discretion and direction of the Academy and without the consent of any other person, may terminate the services of the Depository with respect to the Bonds if the Academy determines that the continuation of the system of book-entry-only transfer through the Depository is not in the best interests of the Beneficial Owners of the Bonds or is burdensome to the Authority or the Academy.

(3) Upon the termination of the services of the Depository with respect to the Bonds pursuant to subsection (c)(1) or (2) hereof, the Bonds shall no longer be restricted to being registered on the Bond Register in the name of Cede as nominee of the Depository. In such event, the Authority shall issue and the Trustee shall transfer and exchange Bond certificates of like principal amount, in Authorized Denominations to the Participants or the identifiable Beneficial Owners (as identified by the Depository or the Participants) in replacement of such Beneficial Owners' beneficial interests in the Bonds. Notwithstanding the preceding sentence, if the Academy designates a successor Depository, the Authority shall issue and the Trustee shall transfer and exchange a Bond certificate, in such name as is directed by the successor Depository, in the amount of Bonds then Outstanding and the Trustee shall take such other action as is necessary so that the beneficial ownership interests of the Beneficial Owners are properly reflected on the records of the successor Depository and its Participants. In such event, references herein to "Cede" shall be deemed to refer to the successor Depository, or its nominee, as the context requires.

(d) The Authority and the Trustee may conclusively rely on (i) a certificate of the Depository as to the identity of the Participants in the book-entry only system, and (ii) a certificate of such Participants as to the identity of, and the respective principal amounts of Bonds beneficially owned by, the Beneficial Owners.

(e) Whenever, during the term of the Bonds, Beneficial Ownership thereof is determined by a book-entry at the Depository, the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Depository as to registering or transferring the book entry to produce the same effect.

(f) Notwithstanding anything in this Indenture to the contrary, the Authority and the Trustee hereby agree as follows with respect to the Bonds, if and to the extent any Bond is registered in the name of Cede as nominee of the Depository: (i) the Trustee shall give the Depository all special notices required by the Letter of Representations at the times, in the forms and by the means required by the Letter of Representations; (ii) the Trustee shall make payments to Cede at the times and by the means specified in the Letter of Representations; (iii) Cede shall not be required to surrender Bonds which have been partially paid or prepaid to the extent permitted by the Letter of Representations; and (iv) the Trustee shall set a special record date (and shall notify the registered

owners of the Bonds thereof in writing) prior to soliciting any Bondholder consent or vote, such notice to be given not less than 15 calendar days prior to such record date (any Bond transferred by a registered owner subsequent to the establishment of the special record date and prior to obtaining such consent or vote shall have attached to it a copy of the notice to Bondholders by the Trustee).

(g) NEITHER THE AUTHORITY, THE ACADEMY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY OF ANY NOTICE BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO BONDHOLDERS UNDER THE TERMS OF THIS INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS.

### **Section 2.15. CUSIP Numbers.**

All payments of principal, premium and interest, whether by check or draft or wire transfer, shall be accompanied by the appropriate CUSIP number identification with appropriate dollar amounts for each CUSIP number.

### **Section 2.16. Additional Bonds.**

The Authority reserves the right to issue Additional Bonds upon the request of the Academy with such approvals as required by the Enabling Legislation, without limit in one or more series for the acquisition, construction and/or renovation and equipping of facilities to be used by the Academy and for such other purposes set forth in, and subject to the requirements, of the Financing Agreement and this Indenture. Additional Bonds shall be of the same priority as the Series 2008 Bonds and all Bonds issued under this Indenture shall be equally and ratably payable from and secured by the Security, but the Additional Bonds shall bear such dates and interest rates, have maturity and redemption dates and amounts, have optional and mandatory redemption provisions, and be issued at such prices as shall be specified in the supplemental indenture related thereto. No Additional Bonds shall be issued unless the following terms and conditions have been met:

(a) the Trustee has received a copy, duly certified by the Authority, of the resolution adopted by the Authority authorizing the issuance of such Additional Bonds and the execution and delivery of a supplemental indenture, supplementing and amending this Indenture, which supplemental indenture shall not require the approval of the Registered Owners of the Bonds Outstanding, providing the date, interest rates and maturities of such Additional Bonds, options and requirements for redemption prior to maturity with respect to such Additional Bonds, deposit of proceeds to the various funds and accounts, including the Reserve Fund, and such other terms as may be required by reason of the foregoing and which adopts the applicable provisions of this Indenture;

(b) the Trustee and the Authority have received an opinion of counsel to the Academy in form and substance acceptable to the Trustee, the Authority, Bond Counsel and the Attorney General of the State of Michigan;

(c) the Trustee has received a certificate of an Authorized Representative of the Academy to the effect that the Academy is not in default under the Financing Agreement, is not aware of any Events of Default under this Indenture and that such indebtedness may be issued under the Financing Agreement;

(d) the Trustee and the Authority have received an opinion of nationally recognized municipal bond counsel to the effect that (i) the issuance of such Additional Bonds will not affect adversely the exclusion from gross income for federal income tax purposes of interest on any Outstanding Bonds, and (ii) the Additional Bonds to be delivered will be valid and legal limited obligations of the Authority in accordance with their

terms and will be secured hereunder equally and on a parity with all other Bonds at the time Outstanding hereunder as to the assignment and pledge of the Security to the payment of the Bonds;

(e) the Trustee has received original executed counterparts of the agreement supplementing and amending the Mortgage (if necessary), an agreement supplementing and amending the State Aid Agreement (if necessary), and the supplemental indenture supplementing and amending this Indenture;

(f) the Trustee has received a request and authorization to the Trustee on behalf of the Authority and signed by an Authorized Representative of the Authority to authenticate and deliver such Additional Bonds to the purchasers therein identified, upon payment to the Trustee, but for the account of the Authority, of a sum specified in such request and authorization, plus accrued interest thereon, if any, to the date of delivery;

(g) the Trustee will receive from the proceeds of the Additional Bonds or otherwise on the date of delivery of the Additional Bonds an amount equal to the additional Academy Reserve Fund Requirement for deposit into the Academy Funded Reserve Account of the Reserve Fund;

(h) the Trustee and the Authority have received an executed opinion of nationally recognized municipal bond counsel to the effect that (i) the Additional Bonds have been duly authorized, executed and delivered and constitute the binding limited obligations of the Authority, enforceable in accordance with their terms, subject to normal bankruptcy exceptions, and (ii) the interest on such Additional Bonds is excluded from gross income for federal income tax purposes (unless it is intended that such interest be taxable); and

(i) the Academy provides to the Trustee a certificate of an Authorized Representative of the Academy, to the effect that:

(i) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the aggregate annual debt service in such fiscal year on the Bonds and any Additional Bonds proposed to be issued is not less than 1.25:1.0;

(ii) The ratio of (a) 20% of the amount of State School Aid projected to be payable to the Academy by the State in any fiscal year to (b) the maximum aggregate annual debt service on the Bonds and any Additional Bonds proposed to be issued is not less than 1.25:1.0;

(iii) Pursuant to (1) and (2) above, for purposes of computing future projections of State School Aid, such certificate shall use the expected total amount of State School Aid to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current fiscal year unless the Academy has received the approval of its Authorizing Body for a grade or facility expansion, in which case, the ratios may be calculated using the number of students certified as of the September count date of the current fiscal year plus the estimated enrollment for any approved grade or facility expansion; and

(iv) The Financing Agreement and Municipal Obligation have been amended, if required, to provide the payments due on the Additional Bonds.

The provisions, covenants and agreements herein set forth to be performed by or on behalf of the Academy shall be for the equal benefit, protection and security of the Registered Owners of any and all of the Bonds, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in this Indenture.



## **ARTICLE III**

### **SECURITY; COVENANTS AND AGREEMENTS OF THE AUTHORITY**

#### **Section 3.01. Security.**

The Bonds and the interest and any redemption premium thereon shall be a limited obligation of the Authority as provided in Section 2.03 hereof, and shall be secured by and payable only from the following:

(a) all Academy Repayments received by the Authority under the Financing Agreement and the Municipal Obligation, which Academy Repayments are to be paid directly to the Trustee and deposited in the Bond Fund;

(b) all moneys and securities in the Bond Fund, Reserve Fund and the Project Fund, including the proceeds of the Bonds pending disbursement thereof;

(c) all of the Authority's rights and interest in the Financing Agreement, except the Unassigned Rights;

(d) all of the proceeds of the foregoing, including without limitation, investments thereof and Investment Income; and

(e) the rights of the Trustee in and under the Mortgage and the Environmental Indemnity Agreement from the Academy in favor of the Trustee with respect to the Site.

The foregoing are collectively the "Security." In consideration of the purchase of the Series 2008 Bonds and to secure payment of the principal of, redemption premium, if any, and interest on the Series 2008 Bonds and any other cost or pecuniary liability of the Authority relating to the Series 2008 Bonds or any proceeding, document or certification incidental to the issuance of the Series 2008 Bonds, and to secure performance and observance of all covenants, terms and conditions upon which the Series 2008 Bonds are to be issued, including without limitation this Indenture, the Authority, without warranty, pursuant to law hereby conveys, assigns and pledges all of its right, title and interest in, and grants a security interest in, the Security to the Trustee, and its successors and assigns, in trust for the benefit of the Bondholders.

#### **Section 3.02. Payment of Bonds and Performance of Covenants.**

The Authority shall promptly pay, but only out of the Security, the principal of, redemption premium, if any, and interest on the Bonds at the place, on the dates and in the manner provided in the Bonds. The Authority shall promptly perform and observe all covenants, undertakings and obligations set forth herein, in the Financing Agreement or the Bonds on its part to be performed or observed. The Authority agrees that the Trustee in its name or in the name of the Authority may enforce against the Academy or any Person any rights of the Authority under or arising from the Bonds or the Financing Agreement whether or not the Authority is in default hereunder or under the Financing Agreement, but the Trustee shall not be deemed to have hereby assumed the obligations of the Authority under the Financing Agreement, but rather shall have no obligations under the Financing Agreement except as specifically provided therein. The Authority shall fully cooperate with the Trustee in the enforcement by the Trustee of any such rights. At the request of the Trustee, the Authority, upon being indemnified to its satisfaction, shall take such actions as the Trustee shall reasonably request to enforce the rights of the Authority or the Trustee under or arising from the Bonds or the Financing Agreement.

#### **Section 3.03. Authority.**

The Authority represents and warrants that (i) it is duly authorized under the Constitution and laws of the State to issue the Bonds, and to execute, deliver and perform the terms of this Indenture; (ii) all action on its part for the issuance of the Bonds and this Indenture have been duly taken; (iii) the Bonds upon issuance and authentication

and this Indenture upon delivery, shall be valid and enforceable against the Authority in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights and by general principles of equity; (iv) it has not heretofore conveyed, assigned, pledged, granted a security interest in or otherwise disposed of the Security; (v) it has not received any payments under the Financing Agreement and the entire principal balance remains outstanding; (vi) it has no knowledge of any right of set-off, defense or counterclaim to payment or performance of the terms or conditions of the Financing Agreement, and (vii) the execution, delivery and performance of this Indenture are not in contravention of law or any agreement, instrument, indenture or other undertaking to which it is a party or by which it is bound.

#### **Section 3.04. No Litigation.**

The Authority represents and warrants that (i) no litigation or administrative action of any nature has been served upon the Authority for the purpose of restraining or enjoining the issuance or delivery of the Bonds or the execution and delivery of this Indenture or the Financing Agreement or in any manner questioning the proceedings or authority under which they have occurred, or affecting their validity or its existence or authority of its present officers; (ii) no authority or proceeding for the issuance of the Bonds or for the payment or security thereof has been repealed, revoked or rescinded; (iii) no petition seeking to initiate any resolution or other measure affecting the same or the proceedings therefore has been filed and (iv) to the best of the knowledge of the officers of the Authority executing this Indenture, none of the foregoing actions is threatened.

#### **Section 3.05. Further Assurances.**

The Authority covenants that it will cooperate to the extent necessary with the Academy and the Trustee in defenses of the Security against the claims and demands of all Persons, and will do, execute, acknowledge and deliver or cause to be done, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better pledging of the Security. The Authority shall not cause or permit to exist any amendment, modification, supplement, waiver or consent with respect to the Financing Agreement without the prior written consent of the Trustee, which consent shall be governed by ARTICLE VII of this Indenture.

#### **Section 3.06. No Other Encumbrances.**

The Authority covenants that except as otherwise provided herein, it will not sell, convey, mortgage, encumber or otherwise dispose of any portion of the Security.

#### **Section 3.07. No Recourse.**

No recourse shall be had for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in this Indenture, the Financing Agreement or the Bond Placement Agreement, against any past, present or future member, official, officer, director or employee of the Authority, or any successor organization, as such, either directly or through the Authority or any successor organization, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such member, official, officer, director, agent or employee as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of the Bonds.

#### **Section 3.08. No Personal Liability.**

No director, member, officer or employee of the Authority, including any person executing this Indenture or the Bonds, shall be liable personally on the Bonds or subject to any personal liability for any reason relating to the issuance, sale or repayment of the Bonds.



### **Section 3.09. Tax Status.**

The Authority shall not take any action, or omit to take any action, which it alone could take that would adversely affect the tax-exempt status of the interest on the Series 2008 Bonds.

## **ARTICLE IV**

### **FUNDS**

#### **Section 4.01. Establishment and Use of Bond Fund.**

There is hereby created and established with the Trustee a special fund to be designated the "U.S. Bank National Association, f/b/o Michigan Public Educational Facilities Authority – Crescent Academy 2008 Bond Fund" (the "Bond Fund"). Within the Bond Fund there shall be established separate trust accounts to be designated the "Revenue Account," and the "State Aid Intercept Account," provided, however, no such account is required to be established and opened by the Trustee until such time as the account is needed under the provisions of this Indenture. Any other amounts received for deposit in the Bond Fund shall be deposited in the Revenue Account of the Bond Fund and shall not be commingled with any other moneys held by the Trustee.

There shall be deposited in the Revenue Account of the Bond Fund (a) all Academy Repayments under the Municipal Obligation and the Financing Agreement (other than Scheduled Installment Payments and Additional Payments, including Reserve Fund Payments, made pursuant to the State Aid Agreement), including all proceeds resulting from the enforcement of the Security or its realization as collateral; (b) Investment Income transferred from the Reserve Fund; and (c) all moneys received by the Trustee under the Financing Agreement for deposit in the Revenue Account of the Bond Fund, including Surplus Bond Proceeds, if any.

There shall be deposited in the State Aid Intercept Account of the Bond Fund all Scheduled Installment Payments and Additional Payments (including Reserve Fund Payments) which are made pursuant to the State Aid Agreement.

Amounts on deposit in the State Aid Intercept Account of the Bond Fund shall be applied in the following order of priority:

- (a) first, payment of any overdue and unpaid obligation to the Authority under the Financing Agreement or the Municipal Obligation;
- (b) second, payment of the Scheduled Principal Component, the Scheduled Set-Aside Component, the Scheduled Interest Component and the Scheduled Fee Payment Component of the Scheduled Installment Payment;
- (c) third, payment of Additional Payments; and
- (d) fourth, to the Authorizing Body for distribution to the Academy or as otherwise directed by the Academy;

provided however, that the amounts disbursed by the Trustee representing Bond Payments in any fiscal year of the Academy shall not exceed 20% of the amount of state school aid payable to the Academy by the State in such fiscal year.

In accordance with the priorities set forth above in (a) through (c), amounts on deposit in the State Aid Intercept Account shall be transferred (i) to the Revenue Account of the Bond Fund to the extent that any payment constitutes a Bond Payment, (ii) to the Reserve Fund to the extent that any payment constitutes a Reserve Fund Payment, and (iii) as specified in the Financing Agreement and/or as periodically directed by an authorized officer of the Authority, to the extent that any payment constitutes an Additional Payment (other than a Reserve Fund

Payment), the Trustee being permitted but not required to establish a subaccount for purposes of tracking Scheduled Fee Payments under the Financing Agreement.

The Authority hereby authorizes and directs the Trustee, and the Trustee hereby agrees, to withdraw sufficient funds from the Bond Fund to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable.

The Authority and Trustee shall at the direction of the Academy use such moneys to redeem Bonds in the manner and amount as directed, subject to the provisions for redemption of Bonds in this Indenture.

After payment of all principal of, premium, if any, and interest on the Bonds then due as of each October 1 and satisfaction of any other Additional Payments (including Reserve Fund Payments) then due, the Trustee shall determine the amount of excess funds then held in the Bond Fund as a result of such Investment Income and credit such amount towards the Scheduled Installment Payment to be paid from the Academy's State School Aid intercepted on the next Payment Date.

In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof, if funds sufficient to pay the principal of and interest on such Bonds shall have been made available to the Trustee for the benefit of the Bondholders, all liability of the Authority and any and all liability of the Academy to the Bondholders, respecting payment of such Bonds shall forthwith cease and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds, without liability for interest thereon, for the benefit of the Bondholders who shall thereafter be restricted exclusively to such funds for any claim under this Indenture or with respect to the Bonds or the interest thereon.

#### **Section 4.02. Establishment, Use and Maintenance of Reserve Fund.**

The Reserve Fund shall be established with the Trustee. Within the Reserve Fund there shall be established separate trust accounts to be designated the "Academy Funded Reserve Account" and the "Authority Funded Reserve Account"; provided, however, that no such account is required to be established and opened by the Trustee until such time as the account is needed under the provisions of this Indenture. Any amounts received for deposit in the Authority Funded Reserve Account shall not be commingled with any other moneys held by the Trustee. Neither the full faith and credit nor any implied guaranty of the United States of America applies to the Bonds by virtue of the deposit of the Grant Funds by the Authority in the Authority Funded Reserve Account. The Academy Funded Reserve Account of the Reserve Fund shall receive certain proceeds of the Bonds as described in Section 2.01 hereof and from time to time such additional moneys required to be deposited therein by the Academy pursuant to the Financing Agreement.

If at any time there are not sufficient funds in the Bond Fund for the payment of principal of, premium, if any, and interest on the Bonds as the same become due, the Trustee shall withdraw *pari passu*, on a pro rata basis, from the various accounts in the Reserve Fund and deposit in the Bond Fund sufficient moneys which, when added to the moneys on deposit in the Bond Fund, will be sufficient to meet the payment of principal, premium, if any, and interest then due on the Bonds.

From time to time as the Trustee determines is necessary, and in any event on the first Business Day of each September and March, commencing September 1, 2008, while amounts are required to be on deposit in the Reserve Fund, the Trustee shall determine the market value (including accrued but unpaid interest) of all Eligible Investments on deposit in the Reserve Fund, together with any cash then held in the Reserve Fund and any amounts that are available to be drawn under any letter of credit, surety bond or insurance policy then on deposit in the Reserve Fund. If the Trustee determines that the aggregate value of such amounts on deposit in the Reserve Fund is less than the Reserve Fund Requirement, the Trustee shall immediately notify the Academy of the amount necessary to restore the Reserve Fund to the Reserve Fund Requirement and the Academy shall pay such amount to the Trustee for deposit, *pari passu*, on a pro rata basis, into the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Fund on or before the next Payment Date following such notification. Notwithstanding the foregoing, if there are sufficient funds in the State Aid Intercept Account of the Bond Fund to replenish any deficiency in the Reserve Fund, after taking into consideration the priority of payments set forth in Section 4.01 hereof, then the Trustee shall transfer funds from the State Aid Intercept Account, *pari*

passu, on a pro rata basis, to the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Account to replenish such deficiency.

Earnings realized from Eligible Investments in the Authority Funded Reserve Account shall be released to the Authority free and clear of the lien of this Indenture on the business day before each April 1 and October 1, without regard to whether the aggregate amount on deposit in the Reserve Fund is less than the Reserve Fund Requirement and on the business day before payment or defeasance of all of the Bonds in accordance with Article V hereof. Investment Income realized from Eligible Investments in the Academy Funded Reserve Account of the Reserve Fund shall be released to the Bond Fund on or after each April 1 and October 1, unless the amount on deposit in the Reserve Fund (after taking into account the Earnings released or to be released to the Authority from the Authority Funded Reserve Account) is less than the Reserve Fund Requirement, in which case, Investment Income on the Academy Funded Reserve Account shall be retained in the Academy Funded Reserve Account until the amount on deposit in the Academy Funded Reserve Account equals the Reserve Fund Requirement. Moneys from the proceeds of the Series 2008 Bonds or Additional Bonds held in the Academy Funded Reserve Account in excess of the amount equal to the difference between the Reserve Fund Requirement and the amount on deposit in the Authority Funded Reserve Account shall be transferred by the Trustee to the credit of the Revenue Account of the Bond Fund to be used to pay principal or interest on the Series 2008 Bonds on the next available Bond Payment Date.

#### **Section 4.03. Establishment and Use of Project Fund.**

There is hereby created and established with the Trustee a special fund to be designated the "U.S. Bank National Association, f/b/o Michigan Public Educational Facilities Authority – Crescent Academy 2008 Project Fund". Certain proceeds of the Bonds, as described in Section 4.04 hereof, shall be delivered to the Trustee for deposit into the Project Fund. Moneys in the Project Fund shall be expended and disbursed in accordance with the provisions of the Financing Agreement. The moneys in the Project Fund shall be held in trust by the Trustee and shall be held as trust funds under this Indenture until paid out or transferred as provided in the Financing Agreement.

#### **Section 4.04. Deposit of Series 2008 Bond Proceeds.**

The net proceeds from the sale of the Series 2008 Bonds, after provision is made for any payments to the Revenue Account of the Bond Fund under Section 4.01 and the Reserve Fund under Section 4.02 shall be deposited into the Project Fund.

#### **Section 4.05. Account Statements.**

The Trustee shall keep and maintain adequate account statements, including receipts and statements of disbursements, deposits and investments, pertaining to the Project Fund, Bond Fund and Reserve Fund. The Trustee shall provide monthly transaction and asset statements pertaining to such Funds to the Academy and to the Authority. Although the Academy recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Academy hereby agrees that confirmations of Eligible Investments are not required to be issued by the Trustee for each month in which a monthly statement is rendered. No statement need be rendered for any fund or account if no activity occurred in such fund or account during such month.

#### **Section 4.06. Investment of Fund Moneys.**

Moneys held as part of the Project Fund, the Bond Fund and the Academy Funded Reserve Account of the Reserve Fund shall be invested and reinvested at the written direction of the Academy in Eligible Investments in accordance with the provisions of the Financing Agreement. Moneys held as part of the Authority Funded Reserve Account of the Reserve Fund shall be invested and reinvested at the written direction of the Authority in Eligible Investments in accordance with the provisions of the Financing Agreement. The Trustee may conclusively rely upon such instructions as to the suitability and legality of the directed investments. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, including cash sweep account fees. Any Eligible Investments shall

be held by or under the control of the Trustee and shall be deemed at all times a part of the fund and account which was used to purchase the same. All interest accruing thereon and any profit realized from Eligible Investments shall be credited to the respective fund or account and any loss resulting from Eligible Investments shall be similarly charged. At the written direction of the Academy, the Trustee shall cause to be sold and reduced to cash a sufficient amount of Eligible Investments whenever the cash balance is or will be insufficient to make a requested or required disbursement from the applicable Fund. The Trustee shall not be accountable for any depreciation in the value of any Eligible Investment or for any loss resulting from such sale.

#### **Section 4.07. Arbitrage.**

The Authority recognizes that investment of the Bond proceeds will be at the written direction of the Academy, but agrees that it will commit no act that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. The Trustee covenants that, while recognizing that investment of Bond proceeds will be at the written direction of the Academy, should the Authority file with the Trustee, or should the Trustee otherwise receive, an opinion of Bond Counsel, to the effect that any proposed investment or other use of proceeds of the Bonds would cause the Bonds to become "arbitrage bonds", then the Trustee will comply with any instructions of the Authority or such Bond Counsel regarding such investment or use so as to prevent the Bonds from becoming "arbitrage bonds". The Trustee shall file a copy of any such opinion of Bond Counsel with the Authority and the Academy.

#### **Section 4.08. Repayment to the Academy From the Funds.**

Any amounts remaining in the Project Fund, the Bond Fund and the Academy Funded Reserve Account of the Reserve Fund after payment in full of the Bonds, the fees and expenses and other costs specified in ARTICLE V of the Financing Agreement, and all other amounts required to be paid under the Financing Agreement or this Indenture, shall be paid to the Academy upon full payment of the Financing Agreement.

#### **Section 4.09. Repayment to the Authority From the Authority Funded Reserve Account.**

Any amounts remaining in the Authority Funded Reserve Account of the Reserve Fund after payment in full of the Bonds, the fees and expenses and other costs specified in ARTICLE V of the Financing Agreement, and all other amounts required to be paid under the Financing Agreement or this Indenture, shall be paid to the Authority upon discharge of this Indenture in accordance with ARTICLE V below.

### **ARTICLE V**

#### **DISCHARGE OF LIEN**

#### **Section 5.01. Discharge of Lien and Security Interest.**

Subject to the next paragraph, upon payment in full of the Bonds, the lien of this Indenture upon the Security shall cease, terminate and be void, and thereupon the Trustee, upon determining that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with, and upon payment of the Trustee's fees, costs and expenses hereunder, shall (i) cancel and discharge this Indenture and the security interests, (ii) execute and deliver to the Authority and the Academy such instruments in writing as shall be required to cancel and discharge this Indenture and the security interests, (iii) reconvey to the Authority all amounts in the Authority Funded Reserve Account and reconvey such other Security, as applicable, to the Authority and the Academy, and (iv) assign and deliver to the Authority all amounts in the Authority Funded Reserve Account and assign and deliver to the Authority and the Academy so much of such other Security as may be in its possession or subject to its control, except for moneys and Governmental Obligations held in the Bond Fund for the purpose of paying Bonds; provided, however, such cancellation and discharge of this Indenture shall not terminate the powers and rights granted to the Trustee with respect to the payment, transfer and exchange of the Bonds; and provided, further, that the rights of the Authority and the Trustee to indemnity and payment of all reasonable fees and expenses shall survive.

If payment or provision therefor has been made with respect to all the Bonds, the interest of the Trustee in the Financing Agreement and the Municipal Obligation shall cease and the Trustee shall cancel the Financing Agreement and the Municipal Obligation and return the same to the Academy. Neither the obligations nor moneys deposited with the Trustee pursuant to this ARTICLE V shall be withdrawn or used for any purpose other than, and shall be segregated and held in trust, for the payment of the principal, redemption premium, if any, and interest on the Bonds in accordance with the terms of this Indenture.

### **Section 5.02. Provision for Payment of Bonds.**

Bonds shall be deemed to have been paid within the meaning of Section 5.01 if:

(a) there have been irrevocably deposited in the Bond Fund either cash or noncallable Governmental Obligations, of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon (such earnings to be held in trust also), be sufficient, for the payment at their respective maturities or redemption dates prior to maturity, of the principal thereof and the redemption premium (if any) and interest to accrue thereon to such maturity or redemption dates, as the case may be;

(b) there have been paid all fees, costs and expenses of the Authority and the Trustee then due or to become due or there are sufficient moneys in the Bond Fund to make such payments;

(c) if any Bonds are to be redeemed on any date prior to their maturity, the Trustee has received in form satisfactory to it irrevocable instructions to redeem such Bonds on such date and either evidence satisfactory to the Trustee that all redemption notices required by this Indenture have been given or irrevocable power authorizing the Trustee to give such redemption notices; and

(d) the Trustee shall have received a written opinion of Bond Counsel to the effect that such deposit (and the payment of the Bonds therefrom) will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

In determining the sufficiency of the moneys and/or Governmental Obligations deposited pursuant to subsection (a) of this Section 5.02, the Trustee shall be entitled to receive, at the expense of the Academy, and may rely on a verification report of a firm of nationally recognized independent certified public accountants.

Limitations elsewhere specified herein regarding the investment of moneys held by the Trustee in the Bond Fund shall not be construed to prevent the depositing and holding in the Bond Fund of the obligations described in the preceding subparagraph (a) for the purpose of defeasing the lien of this Indenture as to Bonds which have not yet become due and payable. In addition, all moneys so deposited with the Trustee as provided in this Section 5.02 may also be invested and reinvested, at the written direction of the Academy, in Governmental Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Governmental Obligations in the hands of the Trustee pursuant to this Section 5.02 which is not required for the payment of the Bonds and interest and redemption premium, if any, thereon with respect to which such moneys shall have been so deposited under this Section 5.02 shall be deposited in the Bond Fund as and when realized and collected for use and application as are other moneys deposited in the Bond Fund.

### **Section 5.03. Discharge of this Indenture.**

Notwithstanding the discharge and cancellation of the lien of this Indenture upon the Security under Section 5.01, this Indenture and the rights granted and duties imposed hereby, to the extent not inconsistent with such discharge and cancellation of the lien upon the Security, shall nevertheless continue and subsist after payment in full of the Bonds until the Trustee shall have returned to the Academy all funds held by the Trustee in the Bond Fund, the Project Fund and the Reserve Fund pursuant to Section 4.08 of this Indenture.

#### **Section 5.04. Unclaimed Moneys.**

Any moneys deposited with the Trustee in accordance with the terms and provisions of this Indenture, or any moneys held by any paying agent, in trust for the payment of the principal of and redemption premium, if any, or interest on the Bonds and remaining unclaimed by the Registered Owners of the Bonds for five years after the final maturity of all Bonds issued hereunder or the redemption date of all the Bonds, as the case may be, shall be applied by the Trustee in accordance with the Uniform Unclaimed Property Act, Act. No. 29, Public Acts of Michigan, 1995, as amended from time to time. The Authority and the Trustee shall have no responsibility with respect to such moneys.

### **ARTICLE VI**

#### **DEFAULT PROVISIONS AND REMEDIES**

##### **Section 6.01. Events of Default.**

Any one of the following shall constitute an Event of Default hereunder:

- (a) Default in the payment of any interest on any Bond when and as the same is due;
- (b) Default in the payment of the principal of or any premium on any Bond when and as the same is due, whether at the stated maturity or redemption date thereof or by acceleration;
- (c) Default in the observance or performance of any other of the covenants, agreements or conditions on the part of the Authority included in this Indenture or in the Bonds and the continuance thereof for a period of forty-five (45) days after the Trustee or a Majority of the Bondholders gives written notice to the Authority and the Academy; provided, however, if such Default is such that it cannot be cured within such period, it shall not constitute an Event of Default if the Default, in the opinion of the Trustee, is correctable and will not have a material adverse effect on the Bondholders or the Security and if corrective action is instituted within such period and diligently pursued until the Default is corrected, but in no event shall such period exceed one hundred twenty (120) days; or
- (d) The occurrence of an "Event of Default" as defined in the Financing Agreement or the Mortgage.

##### **Section 6.02. Acceleration.**

Upon the occurrence of any Event of Default hereunder, the Trustee may and upon the written request of the holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding shall immediately, by notice in writing sent to the Authority, declare the principal of and any premium on all Bonds then Outstanding (if not then due and payable) and the interest accrued thereon to be due and payable immediately, and, upon such declaration, such principal and premium, if any, and interest shall become and be immediately due and payable. Interest on the Bonds shall cease to accrue on the date of such declaration. Upon any declaration of acceleration hereunder, the Trustee shall immediately exercise such rights as it may have under the Financing Agreement to declare all payments thereunder to be immediately due and payable, to the extent it has not already done so.

Immediately following any such declaration of acceleration, the Trustee shall mail notice of such declaration by first class mail to each holder of Bonds at his last address appearing on the Bond Register. Any defect in or failure to give such notice of such declaration shall not affect the validity of such declaration.



### **Section 6.03. Other Remedies; Rights of Bondholders.**

Upon the happening and continuance of an Event of Default hereunder the Trustee may, with or without taking action under Section 6.02 hereof, pursue any available remedy to enforce the performance of or compliance with any other obligation or requirement of this Indenture, the Financing Agreement, the Mortgage or any other security provided by the Academy.

Subject to Section 6.02 hereof, upon the happening and continuance of an Event of Default, and if requested to do so by a Majority of the Bondholders and the Trustee is indemnified as provided in Section 7.01 hereof, the Trustee shall exercise such of the rights and powers conferred by this Section and by Section 6.02 hereof as the Trustee, being advised by Counsel, shall deem most effective to enforce and protect the interests of the Bondholders.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

The Trustee, as the assignee of all right, title and interest of the Authority in and to the Financing Agreement (with the exception of the Unassigned Rights), shall be empowered to enforce each and every right granted to the Authority under the Financing Agreement (with the exception of the Unassigned Rights).

In addition to and without limitation of the foregoing, the Trustee shall not otherwise be obligated to acquire possession of or take any other action with respect to the property subject to the Mortgage (the "Mortgaged Property"), if as a result of any such action, the Trustee would be considered to hold title to, to be a "mortgagee-in-possession of", or to be an "owner" or "operator" of the Mortgaged Property within the meaning of the Comprehensive Environmental Responsibility Cleanup and Liability Act of 1980, as amended from time to time, unless the trustee has previously determined, based on a report prepared by a person who regularly conducts environmental audits, that:

(a) the Mortgaged Property is in compliance with applicable environmental laws or, if not, that it would be in the best interest of the owners of the Bonds to take such actions as are necessary for the Mortgaged Property to comply therewith; and

(b) there are not circumstances present at the Mortgaged Property relating to the use, management or disposal of any hazardous wastes for which investigation, testing, monitoring, containment, clean-up or remediation could be required under any federal, state or local law or regulation, or that if any such materials are present for which such action could be required, that it would be in the best economic interest of the owners of the Bonds to take such actions with respect to the Mortgaged Property.

The environmental audit report contemplated hereby shall not be prepared by an employee or affiliate of the Trustee, but shall be prepared by a person who regularly conducts environmental audits for purchasers of commercial property, as determined (and, if applicable, selected) by the Trustee, and the cost hereof shall be borne by the Academy or the Bondholders, but in no event by the Authority.

Notwithstanding anything contained herein or in the Mortgage to the contrary, before taking any action under this Section 6.03, the Trustee may require that a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished to it for the payment or reimbursement of all expenses to which it may be put and



to protect it against all liability resulting from any claims, judgments, demands, damages, losses, penalties, fines, fees, costs, liabilities (including strict liability) and expenses which may result from such action.

#### **Section 6.04. Right of Bondholders to Direct Proceedings.**

If a Default occurs of which the Trustee is by reason of Section 7.01(j) deemed to have notice, then the Trustee within forty-five (45) days after the occurrence thereof (unless such Default shall have been cured or waived) shall give notice of such Default to the Registered holders of the Outstanding Bonds at the address then shown on the Bond Register. A Majority of the Bondholders may by written instrument filed with the Trustee (i) notify the Trustee, the Authority and the Academy of the existence of a Default or Event of Default, upon which notice the Trustee shall be conclusively presumed to have such notice, (ii) request the Trustee to give written notice of a Default or Event of Default to the Academy and the Authority or give such notice themselves under the provisions of Section 6.01, (iii) as to any Event of Default, request the Trustee to exercise any of the remedies under Section 6.02, upon which request, subject to right of indemnification, the Trustee shall exercise such remedy, (iv) as to any Event of Default, direct the method and place of conducting all proceedings to be taken in connection with the exercise of any remedy, (v) request the waiver of any Event of Default and rescission of the declaration of maturity of principal or termination of any proceedings in connection with the exercise of any remedies; provided, however that there shall be no such waiver, rescission or termination unless all arrears of principal and interest on the Bonds, together with interest thereon (to the extent permitted by law) at the applicable rate of interest borne by the Bonds and all fees and expenses of the Trustee, including the reasonable fees and expenses of its counsel, in connection with such Event of Default shall have been paid or provided for, and (vi) request the Trustee to intervene in any judicial proceeding to which the Authority or the Academy is a party which may have substantial bearing on the interests of holders of the Bonds, and subject to right of indemnification, the Trustee shall so intervene, subject to the approval of a court exercising jurisdiction.

Without limitation of the foregoing, any such proceedings referenced in clause (iv) above may include forbearance or non-action on the part of the Trustee, the acceptance by the Trustee, as mortgagee under the Mortgage, of a deed in lieu of foreclosure, the sale of the property covered by the Mortgage free of the lien thereof for an amount less than the amounts due with respect to the Bonds and the cancellation of the Bonds in full on behalf of the holders thereof, and the waiver or release of claims or the granting of a covenant not to sue.

The Trustee is hereby authorized and directed, on behalf of the holders of the Bonds, to file a proof or proofs of claim in any bankruptcy, receivership or other insolvency proceeding involving the Academy.

In the event a Majority of the Bondholders shall direct the Trustee to exercise one or more of the foregoing rights or one or more of the remedies upon an Event of Default herein authorized and shall reasonably indemnify the Trustee for all costs and expenses in the exercise of said rights and remedies as provided in Section 7.01(h) and the Trustee shall fail to take such designated action as directed within 30 days after receiving written notice of the same and being so indemnified, such Bondholders shall have the right to exercise any and all of the rights and remedies herein authorized in the same manner as if the same had been instituted by the Trustee.

Bondholders shall have the right to bring individual action only to enforce payment of the principal of and interest on the Bonds of the respective holders thereof at the respective due dates thereof, but only if the Trustee has not taken similar action.

No Bondholder shall have the right to institute any proceeding for the enforcement of this Indenture unless such Bondholder has given the Trustee and the Academy written notice of an Event of Default, a Majority of the Bondholders shall have requested the Trustee in writing to institute such proceeding, the Trustee shall have been afforded a reasonable opportunity to exercise its powers or to institute such proceeding, and there shall have been offered to the Trustee indemnity and the Trustee shall have thereafter failed or refused to exercise such powers or to institute such proceeding within a reasonable time. Nothing in this Indenture shall affect or impair any right of enforcement conferred on any Bondholder hereof by the Enabling Legislation to enforce (i) the payment of the principal of and redemption premium (if any) and interest on Bonds at and after the maturity thereof, or (ii) the obligation of the Authority to pay the principal of and redemption premium (if any) and interest on Bonds to such Bondholder at the time, place, from the source and in the manner as provided in this Indenture.

### **Section 6.05. Discontinuance of Default Proceedings.**

In case the Trustee has proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or have been determined adversely, then and in every such case the Authority and the Trustee shall be restored to their former positions and rights hereunder and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken subject to the limits of any adverse determination.

### **Section 6.06. Waiver.**

With the written consent of a Majority of the Bondholders, the Trustee may waive any Default or Event of Default hereunder and its consequences and rescind any declaration of maturity of principal provided there shall have been deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to the occurrence of such Event of Default and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal at the rate borne by the respective Bonds, and the reasonable fees and expenses of the Trustee, including the reasonable fees and expenses of its counsel, and any and all other Defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor or otherwise waived by such Bondholders. In case of any such waiver or rescission, the Authority, the Academy, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to or affect any subsequent or other Default or Event of Default, or impair any right consequent thereon.

No delay or omission to exercise any power accruing upon Default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

### **Section 6.07. Application of Moneys.**

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this ARTICLE VI shall be deposited in the Bond Fund. After payment of (i) the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities, and advances incurred or made by the Trustee and the creation of a reserve for anticipated fees, costs and expenses, including reasonable attorneys' fees, and all other current outstanding fees and expenses of the Trustee, and (ii) any sums due to the Authority under the Financing Agreement (other than Academy Repayments), such moneys shall be applied in the order set forth below:

(a) Unless the principal on all Bonds shall have become or been declared due and payable, all such money shall be applied:

First – To the payment of all installments of interest then due on the Bonds in order of maturity of such installments of interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the ratable payment of the amounts due on such installment;

Second – To the payment of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due (at the rate borne by the Bonds, to the extent permitted by law) and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the ratable payment of the amounts due on such date; and

Third – To the payment of any bond servicing costs as the Trustee may be directed in writing by an authorized officer of the Authority.

(b) If principal of all the Bonds shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority as between principal or interest, ratably according to amounts due respectively for principal and interest to the persons entitled thereto.

(c) If the principal on all Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded under this Article then, subject to paragraph (b) of this Section in the event that the principal of all the Bonds shall later become or be declared due and payable, the moneys shall be applied in accordance with paragraph (a) of this Section.

Whenever moneys are to be applied pursuant to this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application, the likelihood of additional moneys becoming available for such application in the future, and potential expenses relating to the exercise of any remedy or right conferred on the trustee by this Indenture. Whenever the Trustee shall apply such moneys, it shall fix the date ( which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue.

## **ARTICLE VII**

### **THE TRUSTEE**

#### **Section 7.01. Appointment.**

The Trustee is hereby appointed and does hereby agree to act in such capacity, and to perform the express duties of the Trustee under this Indenture, but only upon and subject to the following express terms and conditions (and no implied covenants or other obligations shall be read into this Indenture against the Trustee):

(a) The Trustee may execute any of its trusts or powers and perform any of its duties herein by or through attorneys, agents, receivers or employees, and shall be entitled to rely on advice of Counsel and other professionals concerning all matters of such trusts, powers and duties. The Trustee shall not be answerable for the default or misconduct of any attorney, agent, receiver or employee selected by it with reasonable care, and may in all cases pay such Persons reasonable compensation. The Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with its trusts, powers and duties herein, except only for its gross negligence or willful misconduct.

(b) The Trustee shall not be responsible for any recital herein or in the Bonds (except with respect to the certificate of authentication of the Trustee endorsed on the Bonds), or for the validity of the execution by the Authority of this Indenture or of any supplements thereto or instruments of further assurance, or for the sufficiency of the Security for the Bonds. Except as otherwise provided in Section 6.02 hereof, the Trustee shall have no obligation to perform any of the duties of the Authority under the Financing Agreement, and the Trustee shall not be liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 4.06 hereof. The Trustee shall have no duty or responsibility to examine or review and shall have no liability for the contents of any documents submitted to or delivered to any Bondholder in the nature of a preliminary or final placement memorandum, official statement, offering circular or similar disclosure document.

(c) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder after such Bonds shall have been delivered in accordance with instructions of the Authority or for the use by the Academy of the proceeds of the Municipal Obligation. The Trustee may become the owner of Bonds with the same rights as any other Bondholder.

(d) The Trustee shall be protected in acting upon opinions of counsel and upon any notice, request, consent, certificate, order, affidavit, letter, telegram, or other paper or document believed to be genuine and correct and to have been signed or sent by an authorized representative of such Person or Persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any Person who at the time of

making such request or giving such authority or consent is the owner of any Bond (such ownership to be established as provided in Section 2.08 hereof), shall be conclusive and binding upon all future owners or holders of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

(e) The permissive right of the Trustee to do things enumerated in this Indenture or the Financing Agreement shall not be construed as duties. The Trustee shall only be responsible for the performance of the duties expressly set forth herein and shall not be answerable for other than its gross negligence or willful misconduct in the performance of those express duties.

(f) The Trustee shall not be personally liable for any debts contracted or for damages to Persons or to personal property injured or damaged, or for salaries or non-fulfillment of contracts, relating to the Site or the Academy.

(g) The Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers or otherwise hereunder.

(h) Before taking any action requested hereunder, the Trustee may require that satisfactory security or indemnity be furnished to it for the reimbursement of all fees and expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its own gross negligence or willful misconduct by reason of any action so taken.

(i) All moneys received by the Trustee, until used or applied or invested as herein provided, shall be held as special trust funds for the purposes specified in this Indenture and for the benefit and security of the holders of the Bonds as herein provided. Such moneys need not be segregated from other funds except to the extent required by law or herein provided, and the Trustee shall not otherwise be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(j) The Trustee shall not be bound to ascertain or inquire as to the performance of the obligations of the Academy under the Financing Agreement or the Authority under this Indenture, and shall not be deemed to have, or required to take, notice of a Determination of Taxability or an Event of Default under this Indenture, except (i) in the event the Academy fails to pay any Academy Repayment when due, (ii) in the event of an insufficient amount in the Bond Fund (or any account therein) to make a principal or interest payment on the Bonds, (iii) upon written notification actually received by the Trustee of a Determination of Taxability from the Academy, the Authority or the holder of any Bonds, (iv) upon written notification actually received by the Trustee of a default or Event of Default from the Authority, the Academy or the holders of not less than twenty-five percent (25%) of the principal amount of Outstanding Bonds. In the absence of such notice, the Trustee may conclusively presume there is no Determination of Taxability and no Event of Default except as aforesaid. The Trustee may nevertheless require the Authority and the Academy to furnish information regarding performance of their obligations under the Financing Agreement and this Indenture, but is not obligated to do so.

(k) The Trustee shall, prior to any Event of Default and after the curing of all Events of Default which may have occurred, perform such duties and only such duties of the Trustee as are specifically set forth in this Indenture and the Financing Agreement. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Indenture and the Financing Agreement and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. The foregoing shall not limit the Trustee's obligations under Section 6.02 hereof.

(l) In the event that the Trustee receives direction from Bondholders under any section of this Indenture which permits Bondholders to direct the actions of the Trustee, the Trustee shall only be required to act pursuant to the direction of the Bondholders which represent the largest percentage in aggregate principal amount of the Outstanding Bonds at the time such direction is issued to the Trustee (the "Majority Direction"). The Trustee may act pursuant to other directions of Bondholders to the extent that such direction is not inconsistent with the Majority Direction. The Trustee shall not be liable for a failure to act upon any direction except the Majority Direction when acting pursuant to this Section 7.01(l). Nothing in this Section 7.01(l) shall be construed to modify

or amend any section hereof which requires a minimum number of Bondholders to direct the Trustee to take certain action before the taking of such action by the Trustee becomes mandatory.

(m) Notwithstanding the effective date of this Indenture or anything to the contrary in this Indenture, the Trustee shall have no liability or responsibility for any act or event relating to this Indenture which occurs prior to the date the Trustee formally executes this Indenture and commences acting as Trustee hereunder.

(n) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that (a) the Academy, subsequent to such transmission of written instructions, shall provide the originally executed instructions or directions to the Trustee in a timely manner, (b) such originally executed instructions or directions shall be signed by a person as may be designated and authorized to sign for the Academy or in the name of the Academy, by an authorized representative of the Academy, and (c) the Academy shall provide to the Trustee an incumbency certificate listing such designated persons, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Academy elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Academy agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

#### **Section 7.02. Fees, Expenses.**

The Trustee shall be entitled to payment and/or reimbursement for reasonable fees for its ordinary services rendered hereunder and all advances, counsel fees and other ordinary expenses reasonably made or incurred by the Trustee in connection with such ordinary services. If it becomes necessary that the Trustee perform extraordinary services, it shall be entitled to reasonable extra compensation therefor, and to reimbursement for reasonable extraordinary expenses in connection therewith; provided, that if such extraordinary services or extraordinary expenses are occasioned by the gross negligence or willful misconduct of the Trustee it shall not be entitled to compensation or reimbursement therefor.

The Trustee shall also be indemnified by the Academy as provided in the Financing Agreement. The Trustee recognizes that all fees, charges and other compensations to which it may be entitled under this Indenture are required to be paid by the Academy under the terms of the Financing Agreement or from the proceeds of the Bonds. Accordingly, the Trustee agrees that except for moneys that the Authority may derive from the foregoing (excluding, however, the moneys for the issuance fee, administrative costs, taxes and other public service charges and indemnity under the Financing Agreement), the Authority shall not be liable for any such fees, charges and other compensation to which the Trustee may be entitled. Payment of all such amounts shall however, be secured by the Security as set forth herein.

As security for the payment of the Trustee's fees, costs and expenses and for the indemnity provided in this Section 7.02, the Trustee shall have a first lien on all moneys and property coming into its possession.

When the Trustee incurs expenses or renders services after the occurrence of an act of bankruptcy with respect to the Authority or the Academy, the expenses and the compensation for the services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

The Academy's payment obligations under this Section shall survive the discharge of this Indenture and the resignation or removal of the Trustee, and shall not be limited by any law affecting the compensation of a trustee of an express trust.



### **Section 7.03. Intervention in Litigation.**

In any judicial proceeding to which the Authority or the Academy is a party, and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of the holders of the Outstanding Bonds, the Trustee may intervene on behalf of the Owners of the Bonds and shall do so if requested in writing by the holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and when provided with sufficient indemnity pursuant to Section 7.01(h) hereof.

### **Section 7.04. Resignation; Appointment of Successor Trustee; Successor Trustee Upon Merger, Consolidation or Sale.**

(a) The Trustee and any successor Trustee may resign only upon giving 30 days' prior written notice to the Authority, the Academy and the Bondholders. Such resignation shall take effect only upon the appointment of a successor Trustee as described in Section 7.04(b) below and the acceptance of such appointment by the successor Trustee. Upon appointment of a successor Trustee, the resigning Trustee shall, after payment of its fees, costs and expenses, assign all of its right, title and interest in the Security, and transfer and assign its right, title and interest in this Indenture to the successor Trustee. The successor Trustee shall meet the requirements of Section 7.04(b) below and shall accept in writing its duties and responsibilities hereunder and file such acceptance with the Authority and the Academy.

(b) In case the Trustee shall give notice of resignation or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public office or offices, or of a receiver appointed by a court, a successor may with the prior written consent of the Academy (to the extent that no "Event of Default" shall have occurred and be continuing under the Financing Agreement), be appointed by a Majority of the Bondholders, by an instrument or concurrent instruments in writing signed by such owners, or by their duly authorized attorneys in fact, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the Authority, the retiring Trustee, the successor Trustee and the Academy. In the absence of an appointment by the Bondholders, the Authority may, with the consent of the Academy (to the extent that no "Event of Default" shall have occurred and be continuing under the Financing Agreement), appoint a successor Trustee, by an instrument in writing signed by an authorized officer of the Authority, a copy of which shall be delivered personally or sent by first class mail, postage prepaid, to the retiring Trustee, the successor Trustee and the Academy. If the Registered Owners and the Authority fail to so appoint a successor Trustee, hereunder within sixty (60) days after the Trustee has given notice of its resignation, has been removed, has been dissolved, has otherwise become incapable of acting hereunder or has been taken under control by a public officer or receiver, the Trustee shall have the right to petition a court of competent jurisdiction to appoint a successor hereunder. Every such Trustee appointed pursuant to the provisions of this Section 7.04 (i) shall at all times be a bank having trust powers or a trust company, (ii) shall at all times be organized and doing business under the laws of the United States of America or of any state, (iii) shall have, or be wholly owned by an entity having, a combined capital and surplus of at least \$50,000,000, (iv) shall be authorized under such laws to exercise corporate trust powers, and (v) shall be subject to supervision or examination by federal or state authority.

(c) Any corporation or association into which the Trustee may be merged or converted or with or into which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any merger, conversion, sale, consolidation or transfer to which it is a party, provided such company shall be eligible under Section 7.04(b) hereof, shall be and become successor Trustee hereunder and shall be vested with all the trusts, powers, rights, obligations, duties, remedies, immunities and privileges hereunder as was its predecessor, without the execution or filing of any instrument or any further act on the part of any of the parties hereto.

### **Section 7.05. Removal of Trustee.**

The Trustee may be removed at any time by an instrument or concurrent instruments in writing (a) delivered to the Trustee, the Authority and the Academy and signed by a Majority of the Bondholders, or (b) delivered to the Trustee and the Authority and signed by the Academy; provided that if an Event of Default has occurred and is continuing hereunder, the Trustee may not be removed without the consent of the holders of a

Majority of the Bondholders. No removal of the Trustee and no appointment of a successor Trustee shall become effective until the successor Trustee has accepted its appointment in the manner provided in Section 7.04 hereof. Upon such removal and the payment of its fees, costs and expenses, the Trustee shall assign to the successor Trustee all of its right, title and interest in the Security in the same manner as provided in Section 7.04 hereof.

#### **Section 7.06. Instruments of Bondholders.**

Any instrument required by this Indenture to be executed by Bondholders may be in any number of writings of similar tenor and may be executed by Bondholders in person or by an agent appointed in writing. Proof of the execution of any such instrument or of the writing appointing any such agent shall be sufficient for any of the purposes of this Indenture if it is established by a certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof. Proof of the ownership of Bonds shall be established by the ownership records noted in the Bond Register.

The Trustee may rely on such an instrument of Bondholders unless and until the Trustee receives notice in the form specified above that the original such instrument is no longer trustworthy. In the event that the Trustee receives conflicting directions from two groups of Bondholders, each with combined holdings of not less than 25% of the principal amount of Outstanding Bonds, the directions given by the group of Bondholders which hold the largest percentage of Bonds shall be controlling and the Trustee shall follow such directions as required in this Indenture.

#### **Section 7.07. Appointment of Separate or Co-Trustee.**

It is the intent of the parties to this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State) denying or restricting the rights of banking corporations or associations to transact business as a trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture or the Financing Agreement, and in particular in the case of the enforcement of this Indenture on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee, or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate trustee or co-trustee. The following provisions of this Section 7.07 are adapted to these ends.

If the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, duty, obligation, title, interest and lien expressed or intended by this Indenture to be exercised by, vested in or conveyed to the Trustee with respect thereto shall be exercisable by, vested in and conveyed to such separate trustee or co-trustee, but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary for the exercise thereby by such separate trustee or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Authority be required by the separate trustee or co-trustee so appointed by the Trustee for more fully vesting in and confirming to them such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. If any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting or not be qualified to act, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a successor to such separate trustee or co-trustee.



## ARTICLE VIII

### AMENDMENTS, SUPPLEMENTAL INDENTURES

#### Section 8.01. Supplemental Indentures.

The Authority and the Trustee without the consent of or notice to any Bondholders, may enter into an indenture or indentures supplemental to this Indenture and not inconsistent herewith for one or more of the following purposes:

(a) To cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture which do not materially adversely affect the interest of the Bondholders;

(b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) To grant or pledge to the Trustee for the benefit of the Bondholders any additional security other than that granted or pledged under this Indenture;

(d) To modify, amend or supplement this Indenture or any supplemental indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute then in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States;

(e) To appoint a successor Trustee, separate trustees or co-trustees in the manner provided in ARTICLE VII;

(f) To comply with the provisions of this Indenture pertaining to supplemental indentures in connection with the issuance of Additional Bonds;

(g) To maintain the exclusion of interest on the Bonds from gross income for federal or State of Michigan income tax purposes;

(h) To make any other change which the Trustee and the Authority determine, in reliance on an opinion of Counsel, will not have an adverse effect on Bondholders; or

(i) To accomplish, implement, or give effect to any other action which is authorized or required by the Financing Agreement or this Indenture.

When requested by the Authority or the Academy, and upon receipt of an opinion of Bond Counsel to the effect that all conditions precedent under this Indenture have been met, the Trustee shall join the Authority in the execution of any such supplemental indenture. A copy of all such supplemental indentures shall be promptly furnished to the Academy.

#### Section 8.02. Amendments to Indenture; Consent of Bondholders and the Academy.

Exclusive of supplemental indentures covered by Section 8.01 hereof and subject to the terms and provisions contained in this Section 8.02, and not otherwise, a Majority of the Bondholders affected by such indenture or indentures supplemental hereto shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to and direct the execution by the Trustee of such other indenture or indentures supplemental hereto as shall be consented to by the Authority, which consent shall not be

unreasonably withheld, for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing in this Article shall permit, or be construed as permitting (a) without the consent of the holders of all Bonds then Outstanding adversely affected by such change (i) an extension of the maturity of the principal of, or the mandatory redemption date of, or interest on, any Bond, or (ii) a reduction in the principal amount of, or the premium or the rate of interest on, or redemption provisions with respect to, any Bond, (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (iv) the creation of a lien prior to the lien of this Indenture, (v) a reduction in the aggregate principal amount of the Bonds required for consent to any supplemental indenture, or (b) a modification or change in the duties of the Trustee hereunder without the consent of the Trustee. The giving of notice to and consent of the Bondholders to any such proposed supplemental indenture shall be obtained pursuant to Section 8.06.

Anything herein to the contrary notwithstanding, a supplemental indenture, amendment or other document described under this ARTICLE VIII which affects any rights or obligations of the Academy shall not become effective unless and until the Academy consents to the execution of such supplemental indenture, amendment or other document.

### **Section 8.03. Amendments to Financing Agreement Not Requiring Consent of Bondholders.**

The Authority and the Academy may with the consent of the Trustee but without the consent of or notice to any of the Bondholders, enter into or permit any amendment of the Financing Agreement acceptable to the Academy as may be required (i) to cure any ambiguity or formal defect or omission which shall not adversely affect the interest of the Bondholders; (ii) to grant or pledge to the Authority or Trustee, for the benefit of the Bondholders, any additional security; or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not adverse to the Trustee or the Bondholders.

Copies of any such amendments to the Financing Agreement shall be filed with the Trustee.

### **Section 8.04. Amendments to Financing Agreement Requiring Consent of Bondholders.**

Except as provided in Section 8.03 hereof, the Authority shall not enter into, and the Trustee shall not consent to, any other modification or amendment of the Financing Agreement, nor shall any such modification or amendment become effective, without the consent of a Majority of the Bondholders, such consent to be obtained in accordance with Section 8.06 hereof. No such amendment may, without the consent of the holders of all the Outstanding Bonds adversely affected, reduce the amounts or delay the times of payment of Academy Repayments under the Financing Agreement.

Copies of any such amendments to the Financing Agreement shall be filed with the Trustee.

### **Section 8.05. Amendments, Changes and Modifications to the Financing Agreement.**

The Trustee may, without the consent of the owners of the Bonds, consent to any amendment of the Financing Agreement as may be required for purposes of curing any ambiguity, formal defect or omission which, in the Trustee's judgment, acting in reliance upon an opinion of Counsel, does not prejudice in any respect the interests of the Bondholders. Except for such amendments, the Financing Agreement may be amended only with the consent of the Authority, the Trustee and the owners of a Majority of the Bondholders, except that no such amendment may be made which would reduce the amounts required to be paid or the time for payment of such amounts under the Financing Agreement without the written consent of the owners of all the Outstanding Bonds.

Copies of any such amendments, changes or modifications to the Financing Agreement shall be filed with the Trustee.

## **Section 8.06. Notice to and Consent of Bondholders.**

If consent of the Bondholders is required under the terms of this Indenture for the amendment of this Indenture or the Financing Agreement for any other similar purpose, the Trustee shall cause notice of the proposed execution of the amendment or supplemental indenture to be given by first class mail to the last known holders of the Outstanding Bonds then shown on the Bond Register. Such notice shall briefly set forth the nature of the proposed amendment, supplemental indenture or other action and shall state that copies of any such amendment, supplemental indenture or other document are on file at the designated corporate trust office of the Trustee for inspection by all Bondholders. If, within sixty (60) days or such longer period as shall be prescribed by the Trustee following the mailing of such notice a Majority of the Bondholders or all of the Bondholders of the aggregate principal amount of the Outstanding Bonds, as the case may be, by instruments filed with the Trustee shall have consented to the amendment, supplemental indenture or other proposed action, then the Trustee may execute such amendment, supplemental indenture or other document or take such proposed action and the consent of the Bondholders shall thereby be conclusively presumed.

## **ARTICLE IX**

### **MISCELLANEOUS**

#### **Section 9.01. Limitation of Rights.**

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any Person other than the parties hereto, the Bondholders and the Academy any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions herein being intended to be and being for the sole and exclusive benefit of the parties hereto, the Bondholders and the Academy as herein provided.

#### **Section 9.02. Severability.**

If any provision of this Indenture is held to be in conflict with any applicable statute or rule of law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other part or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

The invalidity of any one or more phrases, sentences, clauses or Sections of this Indenture contained, shall not affect the remaining portions of this Indenture, or any part thereof.

#### **Section 9.03. Notices.**

Except as otherwise provided herein, all notices, certificates, or other communications hereunder shall be in writing and shall be deemed given upon receipt, by hand delivery, mail, overnight delivery, telecopy or other electronic means addressed as follows:

If to the Authority:	Michigan Public Educational Facilities Authority Richard H. Austin State Office Building, 1st Floor 430 W. Allegan Lansing, MI 48922 Tel: (517) 335-0994 Fax: (517) 241-9509
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If to the Academy: Crescent Academy  
17570 W. Twelve Mile Road  
Southfield, MI 48076  
Attn: Director  
Tel: (248) 423-4581  
Fax: (248) 423-1027

If to the Trustee: U.S. Bank National Association  
Mail Station EP-MN-WS3C  
60 Livingston Avenue  
St. Paul, MN 55107  
Attn: Christine Robinette  
Tel: (651) 495-3917  
Fax: (651) 495-8097

A duplicate copy of each notice given hereunder by either party hereto shall be given to the Trustee, the Authority and the Academy. Any person or entity listed above may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. For purposes of this Section, "electronic means" shall mean telecopy or facsimile transmission or other similar electronic means of communication which produces evidence of transmission.

#### **Section 9.04. Additional Notices to Rating Agencies.**

The Trustee hereby agrees that if at any time (a) there is a change in the Trustee; (b) there are any modifications, supplements or amendments to this Indenture or the Financing Agreement of which the Trustee has notice; or (c) all of the Bonds are paid in full; then, in each case, the Trustee shall promptly give notice of any such event to each Rating Agency then maintaining a rating on the Bonds, if any, which notice in the case of an event described in clause (b) above shall include a copy of any such amendment, modification or supplement.

#### **Section 9.05. Payments Due on Non-Business Days.**

In any case where the date of maturity of interest on or premium, if any, or principal of the Bonds or the date fixed for redemption of any Bonds shall not be a Business Day, then payment of such interest, premium or principal need not be made on such date but shall be made on the next succeeding Business Day, with the same force and effect as if made on the date of maturity or the date fixed for redemption, and, in the case of such payment, no interest shall accrue for the period from and after such date.

#### **Section 9.06. Interest Computation.**

The interest on the Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months thereafter.

#### **Section 9.07. Binding Effect.**

This instrument shall inure to the benefit of and shall be binding upon the Authority and the Trustee and their respective successors and assigns, subject, however, to the limitations contained in this Indenture.

#### **Section 9.08. Captions.**

The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

#### **Section 9.09. Governing Law.**

This Indenture shall be governed by and interpreted in accordance with the laws of the State.

### **Section 9.10. Execution in Counterparts.**

This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

## **ARTICLE X**

### **REQUESTS FOR INFORMATION**

#### **Section 10.01. Periodic Academy Filings.**

(a) The Trustee shall maintain a file (which may be in electronic form) of the Academy's quarterly filings of its unaudited statement of revenues, expenditures and changes in fund balances, together with its General Fund Budget and its end-of-year audited financial reports on the operations of the Academy during its just completed fiscal year, each to the extent made with the Trustee as required by the Financing Agreement.

(b) The Trustee shall maintain a file of any written requests for a copy of such reports, received by the Trustee from any Beneficial Owner of any Series 2008 Bond, which requests each must contain the Beneficial Owner's express representation and request to substantially this effect:

(i) The undersigned represents to the Trustee, the Authority and the Academy that the undersigned currently owns \$\_\_\_\_\_ aggregate principal amount of Michigan Public Educational Facilities Authority Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008 which the undersigned purchased from \_\_\_\_\_.

(ii) This is a continuing request to the Trustee to provide to the undersigned, at the address set forth below or such other address as we hereafter in writing tell the Trustee, a copy of each unaudited financial and budget report, end-of-year report of Crescent Academy filed with the Trustee within the preceding 92 days and hereafter, until the undersigned in writing terminates this request or none of the Bonds is any longer Outstanding.

Address of the undersigned: \_\_\_\_\_

\_\_\_\_\_

(c) The Trustee shall honor each written request that it receives, as described in subsection (b) above, in accordance with its terms.

(d) Nothing in this Section 10.01 imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Academy in response to any such written request, or to examine any such report received from the Academy, or to provide a copy of any such report to anyone, who has not made a request therefor in the form, prescribed in subsection (b) above.

#### **Section 10.02. Requests to the Academy.**

(a) The Trustee agrees that for as long as the Financing Agreement is in effect, if anyone who represents that it is a Beneficial Owner of a Series 2008 Bond by delivering to the Trustee a signed statement substantially to the effect of paragraph (i) in Section 10.01(b) above (a "Requesting Bondholder") requests the Trustee to request from the Academy, for and on behalf of such beneficial owner, access to information and the opportunity to ask questions and receive answers concerning the legal status, financial condition, student count and any other relevant matters which the Requesting Bondholder in its discretion determines is necessary regarding the Academy, the Trustee accordingly will make such request to the Academy. The Trustee further agrees to provide to

such Requesting Bondholder a complete copy of whatever the Trustee receives from the Academy in response to such request. The Trustee reserves the right to provide such information it receives from the Academy or the Authorizing Body to a Requesting Bondholder via electronic mail or media. Requests for physical hard copies shall incur a reasonable fee to be paid by the Requesting Bondholder.

(b) Nothing in this Section 10.02 imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Academy in response to any such written request, to examine anything received from the Academy, or to provide a copy of any such information or material to anyone other than a Requesting Bondholder. The Trustee reserves the right to provide such information it receives from the Academy or the Authorizing Body to a Requesting Bondholder via electronic mail or media. Requests for physical hard copies shall incur a reasonable fee to be paid by the Requesting Bondholder.

### **Section 10.03. Requests to Authorizing Body.**

(a) The current authorizing body of the Academy is Bay Mills Community College Board of Regents (which, or any subsequent authorizing body of the Academy, is below called the "Authorizing Body"). The Trustee agrees that for as long as the Financing Agreement is in effect:

(i) if pursuant to Section 10.02 above the Trustee has, on behalf of a Requesting Bondholder, requested but been unable to receive such information from the Academy, then if the Requesting Bondholder further asks the Trustee to request such information from the Authorizing Body, the Trustee accordingly will make such request to the Authorizing Body; and the Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Authorizing Body in response to such request; and

(ii) if a Requesting Bondholder asks the Trustee to request any of the below-listed information from the Authorizing Body, the Trustee accordingly will make such request to the Authorizing Body; and the Trustee further agrees to provide to such Requesting Bondholder a complete copy of whatever the Trustee receives from the Authorizing Body in response to such request:

1. Quarterly or annual financial statements of the Academy;
2. The initiation of proceedings by the Authorizing Body, including the issuance of notice to show compliance, to revoke or suspend the Academy's charter;
3. Written notice received from the Academy regarding voluntary election to terminate its contract;
4. Enrollment data; and
5. Other monetary obligations of the Academy for which any of its state school aid payments are pledged.

(b) Nothing in this Section 10.03 imposes on the Authorizing Body any duty, express or implied, to furnish any requested data. Further, nothing in this Section 10.03 imposes on the Trustee any duty, express or implied, to investigate or verify the truth of any statement made by the Authorizing Body in response to any written request it receives from a Requesting Bondholder, or to examine anything received from the Authorizing Body, or to provide a copy of any such information or material to anyone other than a Requesting Bondholder. The Trustee reserves the right to provide such information it receives from the Academy or the Authorizing Body to a Requesting Bondholder via electronic mail or media. Requests for physical hard copies shall incur a reasonable fee to be paid by the Requesting Bondholder.

*(Signatures to Trust Indenture)*

IN WITNESS WHEREOF, the Authority has executed this Indenture by one of its authorized officers and the Trustee has caused this Indenture to be executed in its name by its duly authorized officer, all as of the day and year first above written.

**MICHIGAN PUBLIC EDUCATIONAL  
FACILITIES AUTHORITY**

By: \_\_\_\_\_  
Kathleen K. O'Keefe  
Its: Authorized Officer

**U.S. BANK NATIONAL ASSOCIATION, as Trustee**

By: \_\_\_\_\_  
Christine Robinette  
Its: Vice President

Trust Indenture - Crescent Academy.DOC



EXHIBIT A

FORM OF FIXED RATE SERIES 2008 BOND

R- \_\_\_\_\_

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any Bond is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond has not been registered under the Securities Act of 1933 or the Michigan Uniform Securities Act and may not be transferred or assigned without compliance with the registration requirements of said Acts absent exemption therefrom.

UNITED STATES OF AMERICA  
STATE OF MICHIGAN

MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY  
LIMITED OBLIGATION REVENUE REFUNDING BONDS  
(CRESCENT ACADEMY PROJECT),  
SERIES 2008

INTEREST RATE	MATURITY DATE	DATE OF ORIGINAL ISSUE	CUSIP
7.00%	October 1, 2036	July 31, 2008	594569 CX1

Registered Owner: Cede & Co.

Principal Amount: Three Million Two Hundred Thousand Dollars (\$3,200,000)

FOR VALUE RECEIVED, the Michigan Public Educational Facilities Authority (the "Authority") hereby promises to pay to the Registered Owner specified above, or registered assigns, upon surrender hereof, at the principal corporate trust or other designated office of the Trustee named below, on the Maturity Date specified above, unless redeemed prior thereto, the Principal Amount specified above, together with interest thereon at the interest rate specified above from the authentication date hereof or such later date to which interest has been paid, but only from the sources and in the manner hereinafter provided on each April 1 and October 1, commencing April 1, 2009 (each, an "Interest Payment Date") until the principal hereof is paid or duly provided for upon redemption or maturity. Payment of the principal of, redemption premium, if any, and interest on this Bond shall be made in lawful money of the United States of America which at the time of payment is legal tender for payment of public and private debts. Unless other arrangements are made pursuant to Section 2.02 of the Indenture (hereinafter

defined), interest is payable by check or draft of the Trustee mailed when due to the registered holder hereof at the close of business on the 15th day of the month immediately preceding any Interest Payment Date at the address of such holder as it appears on the Bond registration books of the Authority maintained by the Trustee (the "Bond Register").

Interest on this Bond shall be computed on the basis of a 360-day year consisting of twelve months of thirty days each.

This Bond is one of an authorized series of bonds of the Authority designated "Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008", and issued in the aggregate principal amount of \$3,200,000 (the "Bonds"), for the purpose of acquiring an obligation (the "Municipal Obligation") of Crescent Academy (the "Academy") so as to enable the Academy to implement the Academy Refunding.

The Bonds are issued pursuant to and in full compliance with the Constitution and laws of the State of Michigan, Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended, and pursuant to a resolution of the Authority adopted on July 30, 2008 (the "Resolution") and a Trust Indenture (the "Indenture"), dated as of July 1, 2008, between the Authority and U.S. Bank National Association, as Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Indenture.

THIS BOND AND THE INTEREST THEREON SHALL NEVER CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE STATE OF MICHIGAN OR THE AUTHORITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OF MICHIGAN OR GENERAL FUNDS OR ASSETS OF THE AUTHORITY (INCLUDING FUNDS PERTAINING TO OTHER LOANS OR ACTIVITIES OF THE AUTHORITY), BUT SHALL BE A LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY THE "SECURITY," ALL AS DEFINED AND PROVIDED AND SUBJECT TO LIMITATIONS SET FORTH IN THE RESOLUTION AND THE INDENTURE, WHICH RESOLUTION AND INDENTURE ARE HEREBY INCORPORATED HEREIN. THE BONDS AND INTEREST DUE THEREON ARE NOT A GENERAL OBLIGATION DEBT OR LIABILITY OF THE AUTHORITY AND DO NOT CONSTITUTE OR GIVE RISE TO ANY PECUNIARY LIABILITY OR CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY, BUT ARE A LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY THE "SECURITY," AS DEFINED IN THE INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE BONDHOLDER, BY THE ACCEPTANCE HEREOF, ASSENTS TO ALL PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT. THE AUTHORITY, AND ITS MEMBERS, OFFICERS, AND EMPLOYEES SHALL NOT BE LIABLE, DIRECTLY OR INDIRECTLY, FOR PAYMENT OF PRINCIPAL, PREMIUM, IF ANY, OR INTEREST ON THIS BOND OR FOR ANY OTHER PECUNIARY LIABILITY IN ANY WAY RELATING THERETO, EXCEPT FROM THE SECURITY.

The Academy has executed and delivered to the Authority, and the Authority has assigned to the Trustee, the Financing Agreement, dated as of July 1, 2008 (the "Financing Agreement"), in the principal amount of the Bonds. Under the Municipal Obligation and the Financing Agreement, the Academy is obligated to repay the Municipal Obligation by making payments at such times and in such amounts (the "Academy Repayments") as shall be required to pay the principal of, premium, if any, and interest on the Bonds, as the same become due (the "Debt Service"). In the Indenture, the Authority has assigned to the Trustee, to provide for payment of Debt Service on the Bonds, the Authority's right, title and interest in and to the Financing Agreement, except for the Authority's Unassigned Rights, as defined in the Indenture. The Academy has caused additional security to be provided to the Trustee in the form of a mortgage in the Academy's public school academy facilities.

The Security includes a security interest in the Financing Agreement (except for the Authority's Unassigned Rights) and the Academy Repayments and in any other moneys held by the Trustee under the Indenture. The Debt Service on the Bonds is payable solely from the Security, and is an obligation of the Authority only to the extent of

the Security. The Bonds are not secured by a pledge of the faith and credit of the Authority, the State of Michigan or any political subdivision thereof.

No recourse under or upon any obligation, covenant, acceptance or agreement contained in the Indenture, or in any of the Bonds, or under any judgment obtained against the Authority, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances, shall be had against any employee or officer, as such, past present, or future, of the Authority or any receiver thereof, or for or to any Holder of any Bond, or otherwise, of any sum that may be due and unpaid by the Authority upon any of the Bonds. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such member or officer, as such to respond by reason of any act or omission on his or her part, or otherwise, for directly or indirectly, the payment for or to the Authority or any receiver thereof, or for or to the owner or any Holder of any Bond, or otherwise, of any sum that may remain due and unpaid upon any Bond, shall be deemed to be and is hereby expressly waived and released as a condition of and consideration for the execution and delivery of the Indenture and the issuance of the Bonds.

The Bonds are issuable as fully registered Bonds in the denomination of \$100,000 or any integral multiple of \$2,500 in excess thereof (the "Authorized Denominations"). This Bond, upon surrender hereof at the principal corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee executed by the registered holder hereof or his attorney duly authorized in writing, may, at the option of the registered holder hereof, be exchanged for an equal aggregate principal amount of Bonds of any other Authorized Denomination. This Bond is transferable as provided in the Indenture, subject to certain limitations therein contained, only upon the Bond Register and only upon surrender of this Bond for transfer to the Trustee duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Trustee duly executed by the registered holder hereof or his attorney duly authorized in writing. Thereupon, one or more new Bonds of Authorized Denominations and in the same aggregate principal amount will be issued to the designated transferee or transferees.

The Authority has established a book-entry only system of registration for the Bonds. Except as specifically provided otherwise in the Indenture, a nominee of a securities depository will be the registered owner and will hold this Bond on behalf of the beneficial owners hereof. By acceptance of a confirmation of purchase, delivery or transfer, the beneficial owners of this Bond shall be deemed to have agreed to this arrangement. The nominee, as registered owner of this Bond, shall be treated as the owner hereof for all purposes.

#### REDEMPTION OF BONDS

The Bonds are not subject to redemption prior to maturity except as hereinafter provided.

##### Optional Redemption

Except as provided below the Bonds are not subject to redemption prior to their respective maturity dates. Bonds are subject to redemption at the option of the Authority, as directed in writing by the Academy, in whole or in part on any Business Day commencing on or after October 1, 2018 in multiples of \$2,500 (provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) and in such order of maturity as the Academy shall direct, at the redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

##### Mandatory Sinking Fund Redemption

The Bonds maturing October 1, 2036 are subject to mandatory sinking fund redemption on October 1, 2009 and each October 1 thereafter at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, from amounts on deposit in the Revenue Fund as follows:

**Term Bond Maturing  
October 1, 2036**

<b>Date</b>	<b>Principal Amount</b>
October 1, 2009	5,000
October 1, 2010	40,000
October 1, 2011	45,000
October 1, 2012	50,000
October 1, 2013	50,000
October 1, 2014	55,000
October 1, 2015	60,000
October 1, 2016	65,000
October 1, 2017	70,000
October 1, 2018	75,000
October 1, 2019	80,000
October 1, 2020	85,000
October 1, 2021	90,000
October 1, 2022	95,000
October 1, 2023	105,000
October 1, 2024	110,000
October 1, 2025	120,000
October 1, 2026	125,000
October 1, 2027	135,000
October 1, 2028	145,000
October 1, 2029	155,000
October 1, 2030	165,000
October 1, 2031	175,000
October 1, 2032	190,000
October 1, 2033	205,000
October 1, 2034	220,000
October 1, 2035	235,000
October 1, 2036**	250,000

\*\* Maturity Date

**Mandatory Redemption Upon Determination of Taxability**

The Bonds shall be subject to mandatory redemption prior to maturity, as a whole and not in part, on the earliest practicable date for which notice can be given following the occurrence of a Determination of Taxability, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

**Mandatory Redemption from Insurance and Condemnation Proceeds.**

The Bonds are subject to mandatory redemption in whole at any time or in part (and if in part in Authorized Denominations; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination) on any Interest Payment Date, at a redemption price equal to 100% of the aggregate principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date, in an amount equal to any insurance or condemnation proceeds deposited with the Trustee for the purpose of redemption pursuant to the Financing Agreement.

### Partial Redemption

If less than all the Outstanding Bonds are called for redemption, the Trustee shall select, or arrange for the selection of, the Bonds to be redeemed by lot, in such manner as it shall in its discretion determine; provided that no Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination. If less than the principal amount of a Bond is called for redemption, the Authority shall execute and the Trustee shall authenticate and deliver, upon surrender of such Bond, without charge to the owner thereof, in exchange for the unredeemed principal amount of such Bond, at the option of such owner, Bonds in any of the Authorized Denominations.

### Notice of Redemption

Notice of redemption shall be mailed by the Trustee by first class mail at least thirty (30) days but not more than forty-five (45) days before any redemption date to the Registered Owner of each Bond to be redeemed in whole or in part at its last address appearing on the Bond Register; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bond or a portion thereof with respect to which no such failure or defect has occurred. In addition, the Trustee may give such other notice or notices as may be recommended in releases, letters, pronouncements or other writings of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice. All Bonds so called for redemption will cease to bear interest on the specified date set for redemption, provided funds for their redemption have been duly deposited with the Trustee pursuant to the Indenture and, thereafter, the holders of such Bonds called for redemption shall have no rights in respect thereof except to receive payment of the redemption price from the Trustee and a new Bond for any portion not redeemed in any of the Authorized Denominations.

### Certain Other Provisions

If provision is made for the payment of principal of, premium, if any, and interest on this Bond in accordance with the Indenture, this Bond shall no longer be deemed Outstanding under the Indenture, shall cease to be entitled to the benefits of the Indenture, and shall thereafter be payable solely from the funds provided for payment.

Under certain circumstances as described in the Indenture, the principal of all the Bonds may be declared due and payable in the manner and with the effect provided in the Indenture. Immediately following any such declaration, the Trustee shall mail notice of such declaration by first class mail to each holder of Bonds at his last address appearing on the Bond Register. Any defect in or failure to give such notice of such declaration shall not affect the validity of such declaration.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations, if any, of the Authority, the Academy and the holders of the Bonds at any time with the consent of the holders of a majority in aggregate principal amount of the Bonds at the time Outstanding which are affected by such modifications. The Indenture also permits amendments and supplements to the Indenture and the Financing Agreement, without requiring the consent of any Bondholders, in certain specifically described instances. The Indenture also contains provisions permitting holders of a majority in aggregate principal amount of the Bonds at the time Outstanding, on behalf of all the holders of all Bonds, to waive compliance by the Authority and the Academy with certain provisions of the Indenture and their consequences. Any such consent or waiver by the holder of this Bond shall be conclusive and binding upon such holder and on all future holders of this Bond and of any Bond issued in lieu hereof whether or not notation of such consent or waiver is made upon this Bond. Supplements and amendments to the Indenture or the Financing Agreement may be made only to the extent and in circumstances permitted by the Indenture.

Under the terms of the Mortgage, the Mortgagee, its successors or assigns, may become the purchaser at foreclosure by using the indebtedness under the Financing Agreement.

The holder of this Bond shall have no right to enforce the provisions of the Indenture or the Financing Agreement, or to institute action to enforce the covenants therein, or to take any action with respect to a default under the Indenture or the Financing Agreement, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided under certain limited circumstances described in the Indenture; provided, however, that nothing contained in the Indenture shall affect or impair any right of enforcement conferred on the holder hereof by the Enabling Legislation to enforce (i) the payment of the principal of and premium, if any, and interest on this Bond at and after the maturity thereof, or (ii) the obligation of the Authority to pay the principal of and premium, if any, and interest on this Bond to the holder hereof at the time, place, from the source and in the manner as provided in the Indenture.

The holder of this Bond, by acceptance hereof, consents to all of the terms and provisions of the Indenture, the Financing Agreement and the Mortgage.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED, that all acts, conditions and things required to exist, happen and be performed precedent to the execution and delivery of the Indenture and the issuance of this Bond and the issue of which it is a part, do exist, have happened and have been timely performed in regular form and manner as required by law, and the issuance of this Bond, together with all other obligations of the Authority, does not exceed or violate any constitutional or statutory limitation of the Authority.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature of one of its authorized signers, this Bond shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

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IN WITNESS WHEREOF, the Michigan Public Educational Facilities Authority has executed this Bond by the manual or facsimile signature of its Executive Director as of the Date of Original Issue set forth above.

**MICHIGAN PUBLIC EDUCATIONAL  
FACILITIES AUTHORITY**

By: \_\_\_\_\_  
Kathleen K. O'Keefe  
Its: Authorized Officer

**TRUSTEE'S CERTIFICATE OF AUTHENTICATION**

This Bond is one of the Bonds described in the within-mentioned Indenture.

**U.S. BANK NATIONAL ASSOCIATION**, as Trustee

By: \_\_\_\_\_  
Christine Robinette  
Its: Vice President

Authentication Date: July 31, 2008

[FORM OF ASSIGNMENT]

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_

(Name and Address of Assignee)

(Taxpayer I.D. No. \_\_\_\_\_)

the within Bond and does hereby irrevocably constitute and appoint \_\_\_\_\_  
\_\_\_\_\_, the within Bond and does hereby irrevocably constitute and appoint  
\_\_\_\_\_, attorney to transfer such Bond on the books kept for registration and  
transfer of the within Bond, with full power of substitution in the premises.

Dated: \_\_\_\_\_ [Signature]

NOTICE: The signature(s) to this Assignment must correspond with the name as it appears upon the face of the Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: \_\_\_\_\_

NOTICE: Signature(s) must be guaranteed by an eligible guarantor institution as defined by SEC Rule 17Ad-15 (17 CFR 240.17Ad-15) participating in a Securities Transfer Association recognized signature guarantee program.

EXHIBIT B

DESCRIPTION OF SERIES 2008 BONDS

Dated Date: July 31, 2008

**MATURITY DATE, AMOUNT AND INTEREST RATE**

**Term Bond**

\$3,200,000	Term Bond due October 1, 2036	Interest Rate 7.00%	Price 100%	CUSIP: 594569 CX1
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## MANDATORY SINKING FUND REDEMPTION PROVISIONS

### Term Bond Maturing October 1, 2036

Date	Principal Amount
October 1, 2009	5,000
October 1, 2010	40,000
October 1, 2011	45,000
October 1, 2012	50,000
October 1, 2013	50,000
October 1, 2014	55,000
October 1, 2015	60,000
October 1, 2016	65,000
October 1, 2017	70,000
October 1, 2018	75,000
October 1, 2019	80,000
October 1, 2020	85,000
October 1, 2021	90,000
October 1, 2022	95,000
October 1, 2023	105,000
October 1, 2024	110,000
October 1, 2025	120,000
October 1, 2026	125,000
October 1, 2027	135,000
October 1, 2028	145,000
October 1, 2029	155,000
October 1, 2030	165,000
October 1, 2031	175,000
October 1, 2032	190,000
October 1, 2033	205,000
October 1, 2034	220,000
October 1, 2035	235,000
October 1, 2036**	250,000

\*\* Maturity Date

# **FINANCING AGREEMENT**

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Between

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY**

**AND**

**CRESCENT ACADEMY**

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Dated as of July 1, 2008

## **TABLE OF CONTENTS**

	<u>Page</u>
<b>ARTICLE I DEFINITIONS</b>	<b>1</b>
Section 101. <u>Definitions</u> .....	1
<b>ARTICLE II REPRESENTATIONS</b>	<b>5</b>
Section 201. <u>Representations of the Authority</u> .....	5
Section 202. <u>Representations of the Academy</u> .....	5
<b>ARTICLE III THE SERIES 2008 BONDS AND THE PROCEEDS THEREOF</b>	<b>8</b>
Section 301. <u>Series 2008 Bonds</u> .....	8
Section 302. <u>Purchase of Municipal Obligation</u> .....	8
Section 303. <u>Disbursements from the Project Fund</u> .....	9
Section 304. <u>Additional Bonds</u> .....	9
Section 305. <u>Investment of Funds and Accounts</u> .....	9
Section 306. <u>Rebate Payments to United States</u> .....	9
<b>ARTICLE IV BOND PAYMENTS</b>	<b>9</b>
Section 401. <u>Obligations Related to Municipal Obligation</u> .....	9
Section 402. <u>Obligations Unconditional</u> .....	10
Section 403. <u>Payment Provisions</u> .....	11
Section 404. <u>Payment General Obligation</u> .....	11
Section 405. <u>State School Aid Pledge and Payment</u> .....	11
Section 406. <u>Mandatory and Optional Prepayments</u> .....	13
Section 407. <u>Fee Payments</u> .....	13
Section 408. <u>Security Interest in the Indenture Funds</u> .....	13
Section 409. <u>Assignment by Authority</u> .....	14
Section 410. <u>Authorized Academy Representative</u> .....	14
Section 411. <u>The Municipal Obligation and Obligations of the Academy Unconditional</u> .....	14
<b>ARTICLE V OTHER OBLIGATIONS OF THE ACADEMY</b>	<b>14</b>
Section 501. <u>Costs of Issuance</u> .....	14
Section 502. <u>Indemnification of the Authority</u> .....	14
Section 503. <u>Indemnification of the Trustee</u> .....	15
Section 504. <u>Taxes and Other Costs</u> .....	15
Section 505. <u>Authority and Trustee Right to Perform Academy Obligations</u> .....	15
Section 506. <u>Audit Obligation</u> .....	16
Section 507. <u>Indemnification of the Bondholders</u> .....	19
<b>ARTICLE VI PROJECT FUND DISBURSEMENTS</b>	<b>16</b>
Section 601. <u>Project Fund Disbursements</u> .....	16
Section 602. <u>Use of Surplus Funds</u> .....	17
Section 603. <u>Application of Insurance and Condemnation</u> .....	17
Section 604. <u>Mortgage and Title Insurance</u> .....	17

**ARTICLE VII FURTHER OBLIGATIONS OF THE ACADEMY** **18**

Section 701. <u>Compliance With Laws</u> .....	18
Section 702. <u>Maintenance of Legal Existence Qualification</u> .....	18
Section 703. <u>Reports and Access to the Site and to Records</u> .....	18
Section 704. <u>Covenant as to Non-Impairment of Tax-Exempt Status</u> .....	18
Section 705. <u>Covenant Regarding Bond Purchases</u> .....	19
Section 706. <u>Academy to Maintain Existence</u> .....	19
Section 707. <u>Other Obligations</u> .....	19
Section 708. <u>Transfer, Assignment and Leasing</u> .....	19
Section 709. <u>Substitution and Removal of Personal Property</u> .....	20
Section 710. <u>Maintenance, Repair and Modification</u> .....	20
Section 711. <u>Liability Insurance</u> .....	20
Section 712. <u>Negligence of the Academy</u> .....	20
Section 713. <u>Property Insurance</u> .....	21
Section 714. <u>Worker's Compensation Insurance</u> .....	21
Section 715. <u>Other Insurance and Requirements for All Insurance</u> .....	21
Section 716. <u>Management Agreement</u> .....	21

**ARTICLE VIII ACTIONS AFFECTING AUTHORITY; INTEREST IN THIS AGREEMENT** **22**

Section 801. <u>Interest in this Agreement</u> .....	22
Section 802. <u>Authority Assignment of this Agreement</u> .....	22
Section 803. <u>Rights of Trustee Hereunder</u> .....	22
Section 804. <u>Authority Compliance With Indenture</u> .....	22
Section 805. <u>Supplements to Indenture</u> .....	22

**ARTICLE IX EVENTS OF DEFAULT AND REMEDIES** **22**

Section 901. <u>Events of Default</u> .....	22
Section 902. <u>Remedies Upon an Event of Default</u> .....	24
Section 903. <u>Payment of Attorneys' Fees and Other Expenses</u> .....	24
Section 904. <u>Limitation on Waivers</u> .....	24

**ARTICLE X MISCELLANEOUS** **25**

Section 1001. <u>Amounts Remaining in Funds</u> .....	25
Section 1002. <u>Notices</u> .....	25
Section 1003. <u>Amendment</u> .....	25
Section 1004. <u>Entire Agreement</u> .....	25
Section 1005. <u>Binding Effect</u> .....	25
Section 1006. <u>Severability</u> .....	25
Section 1007. <u>Execution in Counterparts</u> .....	25
Section 1008. <u>Captions</u> .....	25
Section 1009. <u>Applicable Law</u> .....	25
Section 1010. <u>Non-Liability of State</u> .....	25
Section 1011. <u>Non-Liability of Authorizing Body</u> .....	26
Section 1012. <u>The Indenture</u> .....	26

**EXHIBITS**

Exhibit A Bond Payments.....	A-1
Exhibit B Existing Indebtedness To Be Discharged.....	B-1
Exhibit C Requisition Certificate.....	C-1
Exhibit D Municipal Obligation.....	D-1
Exhibit E Site.....	E-1



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## **FINANCING AGREEMENT**

This Financing Agreement (hereinafter, the "Agreement") is made and entered into as of July 1, 2008, between the **MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY** (the "Authority") and **CRESCENT ACADEMY** (the "Academy").

### **PREMISES**

The Authority has been created by the Enabling Legislation for, among other purposes, the purpose of assisting governmental units, as defined in the Enabling Legislation, including public school academies established under the School Code, by purchasing municipal obligations in fully marketable form issued by governmental units and by lending money to (a) governmental units including public school academies and (b) other nonprofit entities for the benefit of public school academies.

The School Code authorizes public school academies to acquire by purchase, gift, devise, lease, sublease, installment purchase agreement, land contract, option, or by other means, hold and own in its own name, buildings and other property for school purposes, and interests therein, and other real and personal property, including but not limited to, interests in property subject to mortgages, security interests, or other liens, necessary or convenient to fulfill its purposes.

The School Code also authorizes public school academies to borrow money and issue bonds to defray all or a part of the cost of purchasing, erecting, completing, remodeling, or equipping, or reequipping, except for equipping or reequipping for technology, school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities; furnishing or refurnishing new or remodeled school buildings; acquiring, preparing, developing, or improving sites, or parts of or additions to sites, for school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities; purchasing school buses; acquiring, installing, or equipping or reequipping school buildings for technology or accomplishing a combination of the foregoing purposes.

The School Code also authorizes public school academies to issue refunding bonds in accordance with Article VI of the Revised Municipal Finance Act, PA 34 of 2002, as amended.

The Academy has determined that it has a need to implement the Academy Refunding.

The Authority pursuant to this Agreement will acquire the obligation of the Academy to make certain payments.

In consideration of these Premises and their mutual agreements, the Authority and the Academy agree as follows:

## **ARTICLE I**

### **DEFINITIONS**

**Section 101. Definitions.** Words and phrases capitalized herein and not defined below shall have the meanings ascribed to them in the Indenture and the Resolution adopted by the Authority on July 30, 2008 authorizing the Series 2008 Bonds. In addition, the following words and phrases as used throughout this Agreement shall have the following meanings unless the context or use clearly indicates another or different meaning or intent:

"Academy Documents" means this Agreement, the Bond Placement Agreement, the Mortgage, the State Aid Agreement, the Continuing Disclosure Agreement, the Environmental Indemnity Agreement, and all other documents executed by the Academy in connection with this financing.

"Academy Refunding" means the Academy's refunding of the Existing Indebtedness To Be Discharged.

"Additional Payments" means all payments required by the Academy under this Agreement (including but not limited to Fee Payments and Reserve Fund Payments) other than Bond Payments.

"Agreement" means this Financing Agreement as the same may be amended or supplemented in accordance with its terms and the terms of the Indenture.

"Authorized Academy Representative" means the Board President of the Academy or any other officer of the Academy authorized to act in such capacity by a resolution adopted by the Board of the Academy.

"Authorizing Body" means Bay Mills Community College Board of Regents.

"Bond Counsel" means a firm of nationally recognized attorneys at law acceptable to the Authority and experienced in legal work relating to the issuance of bonds the interest on which is excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

"Bond Documents" means the Academy Documents, the Municipal Obligation and the Indenture.

"Bond Payment Date" means, with respect to the Series 2008 Bonds, April 1, 2009 and each October 1 and April 1 thereafter with respect to interest, and October 1, 2009 and each October 1 thereafter with respect to principal.

"Bond Payments" means the amounts payable by the Academy under its Municipal Obligation allocable to the repayment of principal of, or interest or redemption under the Municipal Obligation which do not consist of Scheduled Fee Payments.

"Bond Placement Agreement" means the Bond Placement Agreement, dated July 30, 2008, among the Authority, the Academy, and the Placement Agent.

"Bondholder" means the registered owner of any Series 2008 Bond.

"Charter" means the Academy's Contract with its Authorizing Body, together with its Articles of Incorporation and Bylaws.

"Charter School" means a public school, as defined by the U.S. Department of Education in conjunction with The Credit Enhancement for Charter School Facilities Program, that:

- (a) in accordance with specific State statute authorizing the granting of charters to schools, is exempted from significant State or local rules that inhibit the flexible operation and management of public schools, but not from any rules relating to the other requirements of this paragraph;

- (b) is created by a developer as a public school, or is adapted by a developer from an existing public school, and is operated under public supervisions and direction;

- (c) has a specific set of educational objectives determined by the school's developer and agreed to by the authorized public chartering agency;

- (d) provides a program of elementary or secondary education, or both;

- (e) is nonsectarian in its programs, admissions policies, employment practices, and all other operations, and is not affiliated with a sectarian school or religious institution;

- (f) does not charge tuition;

(g) complies with the Age Discrimination Act of 1975, Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, section 504 of the Rehabilitation Act of 1973, and part B of the Individuals with Disabilities Education Act;

(h) is a school to which parents choose to send their children, and that admits students on the basis of a lottery, if more students apply for admission than can be accommodated;

(i) agrees to comply with the same Federal and State audit requirements as do other elementary and secondary schools in the State, unless such requirements are specifically waived;

(j) meets all applicable Federal, State, and local health and safety requirements;

(k) operates in accordance with State law; and

(l) has a written performance contract with the authorized public chartering agency in the State that includes a description of how student performance will be measured in charter schools pursuant to State assessments that are required of other schools and pursuant to any other assessments mutually agreeable to the authorized public chartering agency and the charter school.

"Closing Date" means the date of the initial delivery of the Series 2008 Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations proposed and promulgated from time to time thereunder and under the predecessor code.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement between the Academy and the Trustee, dated as of July 1, 2008.

"Costs of Issuance" has the meaning given in Section 202(x) of this Agreement.

"Default" and "Event of Default" means those defaults and events of default, respectively, specified and defined in Section 901.

"Enabling Legislation" shall mean Executive Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Public Acts of 1984 of the State, as amended.

"Existing Indebtedness To Be Discharged" means the indebtedness of the Academy identified on Exhibit B hereto.

"Favorable Opinion of Bond Counsel" means an opinion of Bond Counsel addressed to the Authority, the Trustee and original Bondholders (so long as the original Bondholders are Bondholders) to the effect that the action proposed to be taken is not prohibited by the laws of the State or the Bond Documents and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Series 2008 Bonds.

"Fee Payments" mean the fee payments required by Section 407 hereof.

"Helicon Lease" means the Master Equipment Lease, dated June 22, 2007, between the Academy and Helicon Associates, Inc.

"Indenture" means the Trust Indenture between the Authority and U.S. Bank National Association, a national banking association, as trustee, dated as of July 1, 2008, as the same may be amended or supplemented in accordance with its terms.

"Interest Payment Date" means, with respect to the Series 2008 Bonds, each April 1 and October 1, commencing April 1, 2009.

"Majority of the Bondholders" mean the holders of the majority of aggregate principal amount of the Outstanding Bonds.

"Management Agreement" means an agreement between the Academy and a third party providing for the management and operation of the Site.

"Mortgage" means the Future Advance Mortgage, dated July 1, 2008, from the Academy in favor of the Trustee with respect to the Site.

"Municipal Obligation" means the School Building and Site Refunding Bond, Series 2008 of the Academy, dated as of July 31, 2008, in substantially the form of Exhibit D attached hereto.

"Net Proceeds" means any insurance proceeds or condemnation award paid with respect to the Site remaining after payment therefrom of all expenses incurred in the collection thereof.

"Non-Arbitrage Certificate" means, collectively, the Non-Arbitrage Certificate delivered by the Authority and the Non-Arbitrage and Tax Compliance Certificate of the Academy in connection with the initial delivery of the Series 2008 Bonds.

"Other Obligations" means obligations of the Academy incurred pursuant to and permitted by Section 707.

"Payment Date" has the meaning given in Section 405 hereof.

"Placement Agent" means Fifth Third Securities, Inc. and any successor thereto.

"Pledged State Aid" has the meaning given in Section 405 hereof.

"Principal Amount" means \$3,200,000 being the aggregate principal amount of the Series 2008 Bonds.

The term "principal," when used with reference to the principal of the Series 2008 Bonds, means principal of the Series 2008 Bonds and, where appropriate, any premium in addition to principal due upon redemption of the Series 2008 Bonds.

"Requisition Certificate" means the certificate provided for in Section 601 hereof, in the form of Exhibit C hereto.

"Reserve Fund Payments" has the meaning given in Section 401 hereof.

"Scheduled Fee Payment Component" means the portion of the Scheduled Installment Payment to be intercepted and allocated to Fee Payments, as set forth on Exhibit A.

"Scheduled Installment Payment" means the scheduled amounts payable by the Academy as set forth on Exhibit A and under the State Aid Agreement, which consists of a Scheduled Principal Component, a Scheduled Interest Component, a Set-Aside Component, and a Scheduled Fee Payment Component.

"Scheduled Interest Component" means the portion of the Scheduled Installment Payment to be intercepted and allocated to a payment of the interest on the Municipal Obligation, as set forth on Exhibit A.

"Scheduled Principal Component" means the portion of the Scheduled Installment Payment to be intercepted and allocated to repayment of this obligation and the principal amount of the Municipal Obligation, as set forth on Exhibit A.

"Series 2008 Bonds" means \$3,200,000 Michigan Public Educational Facilities Authority Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008.

"Set-Aside Component" means the portion of the Scheduled Installment Payment to be intercepted and allocated for the payment of principal of and/or interest on the Series 2008 Bonds in the calendar month(s) in which no Payment Date for State School Aid exists, as set forth on Exhibit A.

"Site" means the real property described in Exhibit E hereto, the facility thereon and the related improvements including Equipment (as defined in the Mortgage).

"State" means State of Michigan.

"State Aid Agreement" means the State Aid Agreement, dated as of July 1, 2008, among the State Treasurer of the State of Michigan, the Authority, the Academy, the Trustee and the Authorizing Body.

"State School Aid" means the state school aid payments payable to the Academy pursuant to the School Aid Act.

"Unassigned Rights" means the right of the Authority to make all determinations and approvals and receive all notices accorded to it under this Agreement and to enforce in its name and for its own benefit the provisions of Section 407, Section 502 and Section 903 of this Agreement with respect to the Authority fees and expenses and indemnity payments as the interests of the Authority and related persons shall appear.

## ARTICLE II

### REPRESENTATIONS

Section 201. Representations of the Authority. The Authority makes the following representations:

(a) The Authority is a body corporate and politic established and acting pursuant to the Enabling Legislation with full authority under the Enabling Legislation to issue the Series 2008 Bonds and execute and enter into this Agreement, the Indenture, the State Aid Agreement and the Bond Placement Agreement.

(b) All of the proceedings approving this Agreement, the Indenture, the State Aid Agreement and the Bond Placement Agreement were conducted by the Authority at meetings which complied with Act 267, Michigan Public Acts, 1976, as amended.

(c) No member of the Authority is directly or indirectly a party to or in any manner whatsoever interested in this Agreement, the Indenture, the Series 2008 Bonds or the proceedings related thereto.

Section 202. Representations of the Academy.

(a) The Academy is a public school academy established in accordance with the provisions of the Revised School Code, PA 451 of 1976, as amended (the "School Code"), and is a Charter School as defined by the U.S. Department of Education's Credit Enhancement for Charter School Facilities Program and has, and on the Closing Date, will have, full legal right, power and authority (i) to enter into the Academy Documents and to issue the Municipal Obligation, and (ii) to sell, pledge and assign to the Authority the state aid payments to be allocated and paid to the Academy as provided herein and the Academy has duly authorized and approved the execution and delivery of and the performance by the Academy of its obligations contained in the Municipal Obligation and the Academy Documents; and the Academy Documents and the Municipal Obligation have been duly authorized, executed and delivered

by, and assuming due authorization by the other parties thereto, if any, are valid and binding obligations of the Academy.

(b) Neither the authorization, execution or delivery of this Agreement, the Bond Placement Agreement and the Municipal Obligation, the consummation of the transactions contemplated by this Agreement, the Bond Placement Agreement, the Indenture, and the Municipal Obligation nor the fulfillment of or compliance with the terms and conditions of this Agreement, the Bond Placement Agreement and the Municipal Obligation will require any consent or approval of the governing board of the Academy or its Authorizing Body which has not been obtained, or violate any provision of law, any order of any court or other agency of government, the Charter, or any indenture, agreement or other instrument to which the Academy is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under its Charter or any such indenture, agreement or other instrument, or, except as provided hereunder, result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Academy.

(c) No litigation or governmental proceeding is pending or, to the knowledge of the officers of the Academy, threatened against the Academy which could have a material adverse effect on its financial condition or business, its power to make payments under this Agreement or the authority or incumbency of its officers or directors.

(d) The Academy intends to cause the Site to be operated at all times during the term of this Agreement as a "public school academy" as that term is defined in the Revised School Code and as a Charter School. All property which is to be refinanced with the net proceeds of the Series 2008 Bonds is owned by the Academy, free and clear of any liens, encumbrances or security interests except the Mortgage and Permitted Encumbrances (as defined therein).

(e) Moneys which will be made available from the Authority under this Agreement and other sources will be sufficient to accomplish the Academy Refunding.

(f) The Academy reasonably believes that the revenues and income generally available or to become available to the Academy and payable to the Authority under this Agreement will be sufficient for the payment of the Series 2008 Bonds and interest thereon when due.

(g) Proceeds of the Series 2008 Bonds will not exceed the amount necessary to accomplish the Academy Refunding and incidental costs related thereto and to the issuance of the Series 2008 Bonds.

(h) Except with respect to the Helicon Lease, the Academy is not in default in any material respect under any order, writ, judgment, injunction, decree, determination or award or any indenture, agreement, lease or instrument. The Academy is not in default under any law, rule or regulation wherein such default could materially adversely affect the Academy or the ability of the Academy to perform its obligations under the Academy Documents.

(i) No more than 10 percent of the proceeds of the Series 2008 Bonds will be used directly or indirectly in a trade or business carried on by any person other than a governmental unit (a "private business use"). No more than 5 percent of the proceeds of the Series 2008 Bonds will be used for any private business use that is not related to governmental purposes of the Authority or the Academy or that, although related to governmental purposes of the Authority or the Academy, exceeds the amount of Series 2008 Bond proceeds used for governmental purposes of the Authority or the Academy other than a related private business use. No more than 5 percent of the proceeds of the Series 2008 Bonds will be used directly or indirectly to make or finance loans to persons other than governmental units or loans for



purposes other than enabling a borrower to finance any governmental tax or assessment of general application for a specific essential governmental function such as the Site.

(j) The weighted average maturity of the Series 2008 Bonds is not greater than 120% of the average reasonably expected economic life of the facilities being refinanced by the Series 2008 Bonds, as determined pursuant to Section 147(b) of the Code.

(k) There are no contracts or other arrangements providing for private business use or ownership of any property to be refinanced by proceeds of the Series 2008 Bonds, and the Academy covenants not to enter into any such contracts or arrangements during the term of this Agreement, including any contracts or arrangements for the provision of medical services, food services, management services, or any other types of services, except contracts and arrangements which satisfy the requirements of Rev. Proc. 97-13 or other applicable regulations under the Code.

(l) The Academy will comply with the provisions of Section 148 of the Code. The Academy covenants, for the benefit of itself, the Authority and the owners from time to time of the Series 2008 Bonds, that it will not cause or permit any proceeds of the Series 2008 Bonds to be invested in a manner contrary to the provisions of Section 148 of the Code, and that it will assume compliance with such provisions on behalf of the Authority (including, without limitation, performing required calculations, the keeping of proper records and the timely payment to the Department of the Treasury of the United States, in the name of the Authority, of all amounts required to be so paid by Section 148 of the Code), and the Academy shall carry out all of the requirements to calculate and make rebate payments to the United States and preserve records thereof.

(m) Except as permitted by Code Section 149(b), the Series 2008 Bonds are not federally guaranteed. For this purpose, a bond is federally guaranteed if (i) the payment of principal or interest is guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof), (ii) 5% or more of the issue is to be (x) used in making loans the principal or interest with respect to which is to be guaranteed (in whole or in part) by the United States (or an agency or instrumentality thereof) or (y) invested directly or indirectly in federally insured deposits or accounts, or (iii) the payment of principal or interest on such bond is otherwise indirectly guaranteed (in whole or in part) by the United States (or an agency or instrumentality thereof).

(n) There are no other obligations of the Academy that were sold or are to be sold within 15 days of the sale of the Series 2008 Bonds that (i) were or are to be sold pursuant to the same plan of financing with the Series 2008 Bonds and (ii) are reasonably expected to be paid from substantially the same source of funds as the Series 2008 Bonds, determined without regard to guaranties from unrelated parties.

(o) The Academy shall not enter into any contracts or other arrangements which do not comply with (i) and (k) above.

(p) The Academy will not pay or enter into a transaction that reduces the arbitrage rebate to be paid to the United States because the transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the yield on the Series 2008 Bonds not been relevant to either party.

(q) The Site conforms with all applicable zoning, planning, building, environmental and other regulations of the governmental authorities having jurisdiction of the Site.

(r) To the best of the knowledge of the Academy, no authorizations, consents or approvals of governmental bodies or agencies are required in connection with the execution and delivery by the Academy of the Academy Documents and the Municipal Obligation, or in connection with the

carrying out by the Academy of its obligations under the Academy Documents and the Municipal Obligation, which have not been obtained or, if not obtained on the date of this Agreement, are expected to be obtained in the normal course of business at or prior to the time such authorizations, consents or approvals are required to be obtained.

(s) There are no actions or proceedings pending or, to the knowledge of the Academy, threatened before any court or administrative agency which will, in the reasonable judgment of the Academy, materially adversely affect the ability of the Academy to meet its obligations under the Academy Documents.

(t) No director or officer of the Authority has any interest of any kind in the Academy which would result, as a result of the issuance of the Series 2008 Bonds, in a substantial financial benefit to such persons other than as a member of the general public.

(u) The information furnished by the Academy and used by the Authority in preparing its Non-Arbitrage Certificate pursuant to the Code and the information statement pursuant to Section 149(e) of the Code (Form 8038-G) is true, accurate and complete as of the date of the issuance of the Series 2008 Bonds.

(v) The Academy has complied and intends to comply with its obligations, covenants and representations under the Bond Documents, including all obligations necessary to maintain the tax-exempt status of the Series 2008 Bonds.

(w) None of the proceeds of the Series 2008 Bonds will be used to finance the purchase, construction, lease, or renovation of property owned, directly or indirectly, by any officer, board member, or employee of the Academy.

(x) The Academy shall promptly pay the Costs of Issuance upon notification by the Authority. The term "Costs of Issuance" shall mean and include Placement Agent's fee, printing charges, letter of credit fees and related charges of a letter of credit, trustee fees, bond counsel fees, academy counsel fees, and other counsel fees and issuance fees of the Authority.

(y) The Academy will utilize the Site for public school purposes so long as Series 2008 Bonds remain outstanding under the Indenture and will operate the school in an efficient manner. The Academy will maintain its Charter in good standing. The Academy will not own, operate or utilize other public school facilities which may reduce the utilization or student population of the school facilities being refinanced by the Series 2008 Bonds while such Bonds remain outstanding.

### **ARTICLE III**

#### **THE SERIES 2008 BONDS AND THE PROCEEDS THEREOF**

**Section 301. Series 2008 Bonds.** The Authority has authorized the issuance and sale of the Series 2008 Bonds in the Principal Amount. The Authority intends to deliver the Series 2008 Bonds subject to the terms of the Bond Placement Agreement. The proceeds of the Series 2008 Bonds shall be deposited in the Project Fund. The obligations of the Authority, and the Academy under this Agreement are expressly conditioned upon delivery of the Series 2008 Bonds and receipt of the proceeds thereof.

**Section 302. Purchase of Municipal Obligation.** The Authority hereby agrees to purchase the Municipal Obligation in the principal amount of \$3,200,000, by depositing the same as follows: (a) \$0.00 in the Academy Funded Reserve Account of the Reserve Fund to be used to fund a portion of the debt service reserve for the Series 2008 Bonds and any Additional Bonds, (b) \$\_\_\_\_\_ in the Project Fund, to be disbursed in accordance

with Section 303 to accomplish the Academy Refunding, and (c) \$\_\_\_\_\_ in the Project Fund, to be disbursed in accordance with Section 303 for payment of Costs of Issuance.

In addition to the amount of net proceeds of the Series 2008 Bonds deposited in the Academy Funded Reserve Account of the Reserve Fund, the Authority agrees to deposit the Authority Contribution into the Authority Funded Reserve Account of the Reserve Fund upon issuance of the Series 2008 Bonds.

**Section 303. Disbursements from the Project Fund.** The Authority has directed the Trustee to disburse from the Project Fund established under the Indenture, upon requisition by the Academy, in accordance with Section 601 of this Agreement and the other amounts on deposit therein as provided in this Agreement.

**Section 304. Additional Bonds.** The Authority may, but shall not be required to, authorize the issuance of the additional bonds upon the terms and conditions provided in the Indenture. Failure by the Authority to issue additional bonds shall not release the Academy from any provisions of this Agreement, regardless of the reason for such failure. Any issuance of additional bonds shall comply with the provisions of Section 707 hereof.

**Section 305. Investment of Funds and Accounts.** Any moneys held as a part of any Fund or Account shall be invested, reinvested or applied by the Trustee in accordance with the provisions of the Indenture. Any moneys held in the Project Fund, Bond Fund or Reserve Fund shall, pending disbursement and upon written request of the Academy or oral or facsimile request of the Academy later confirmed in writing, be invested only in Eligible Investments in accordance with the provisions of Section 4.06 of the Indenture, all at such maturities, rates of interest and other specifications as the Academy may indicate in its request to the Trustee. The investments shall mature not later than the respective dates estimated by the Academy when the moneys in such Funds shall be needed for the purposes provided in this Agreement and the Indenture, but should the cash balance in a Fund be insufficient for such purpose, the Trustee is authorized to sell the necessary portion of such investments to meet that purpose. Recognizing that such investments shall be made at the written direction of the Academy, the Authority agrees to cooperate with the Academy, and the Academy covenants that it will restrict the use of the proceeds of the Series 2008 Bonds (and any other funds or moneys which may be deemed to be proceeds of the Series 2008 Bonds pursuant to Section 148(a) of the Code), in such manner and to such extent, if any, as may be necessary, after taking into account reasonable expectations at the time the Series 2008 Bonds are issued, so that the Series 2008 Bonds will not constitute "arbitrage bonds" under Section 148(a) of the Code.

The Academy shall not invest, reinvest or accumulate any moneys deemed to be proceeds of the Series 2008 Bonds pursuant to the Code in such a manner as to cause the Series 2008 Bonds to be "arbitrage bonds" within the meaning of the Code.

**Section 306. Rebate Payments to United States.** The Academy for itself and for the Authority agrees that it shall calculate and make all necessary payments of investment earnings required to be rebated to the United States pursuant to the terms of the Indenture and the Non-Arbitrage Certificate. The Academy hereby further agrees that it shall comply with the procedures outlined in the Academy's Non-Arbitrage and Tax Compliance Certificate and shall furnish to the Trustee and the Authority within fifteen (15) days following each Computation Date (as defined in the Academy's Non-Arbitrage and Tax Compliance Certificate) the computations required thereby. The Trustee has no duty to confirm the accuracy of the computations made by the Academy and may assume that the computations are correct. The Academy shall provide to the Trustee and the Authority evidence of each payment of rebate, if any, within 30 days of each such payment.

## **ARTICLE IV**

### **BOND PAYMENTS**

**Section 401. Obligations Related to Municipal Obligation.** The Academy hereby agrees that it will not sell, assign title to, lease, or obtain further financing with respect to the Site except as permitted hereunder and with the written permission of the Trustee while Bond Payments or Additional Payments remain outstanding under the

Municipal Obligation and this Agreement. The Academy agrees that the Authority may pledge the Municipal Obligation and this Agreement to the Trustee as security for its obligations to pay Series 2008 Bonds and any Additional Bonds issued under the Indenture.

If, on a Bond Payment Date, the Academy's payment of its obligations hereunder have been deficient or if for any other reason the balance in the Bond Fund is insufficient to pay principal and interest on the Series 2008 Bonds then due, whether by maturity, redemption, or acceleration, the Academy shall forthwith pay the amount of any such deficiency to the Trustee without any notice or demand required by the Trustee.

If any withdrawal is made from the Reserve Fund to cure any deficiency in the Bond Fund, to the extent that the Academy has failed to pay to the Trustee any deficiency as noted in the paragraph above, the Academy shall pay to the Trustee for deposit into the Reserve Fund on each Payment Date commencing with the first Payment Date following such withdrawal, an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement in eleven consecutive equal installments or such other number of equal installments as the Trustee shall determine necessary to restore the Reserve Fund to the Reserve Fund Requirement by the next Bond Payment Date. If, on any Bond Payment Date, the value of the Reserve Fund is less than the Reserve Fund Requirement, the Academy shall pay to the Trustee for deposit, *pari passu*, on a pro rata basis, into the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Fund on each Payment Date, commencing on the first Payment Date following such Bond Payment Date, an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement in full (such payments being "Reserve Fund Payments"). Notwithstanding the foregoing, if there are sufficient funds in the State Aid Intercept Account of the Bond Fund to replenish any deficiency in the Reserve Fund (after taking into consideration the priority of payments set forth in Section 4.01 of the Indenture), then the obligation to make Reserve Fund Payments in an amount sufficient to restore the Reserve Fund to the Reserve Fund Requirement shall be accelerated and the Trustee shall transfer funds from the State Aid Intercept Account, *pari passu*, on a pro rata basis to the Academy Funded Reserve Account of the Reserve Fund and the Authority Funded Reserve Account of the Reserve Fund to satisfy all outstanding Reserve Fund Payment requirements in accordance with Section 4.01 of the Indenture.

**Section 402. Obligations Unconditional.** The Academy's obligations to the Authority and its assigns (including the Trustee) under the Municipal Obligation and this Agreement are an absolute and unconditional general obligation of the Academy and shall remain in full force and effect until the amounts owed hereunder shall have been paid by the Academy to the Authority under the Municipal Obligation and this Agreement, and such obligations shall not be affected, modified or impaired upon the happening from time to time of any event, including without limitation any of the following:

- (a) Any failure of title with respect to the Academy's interest in the Site or the invalidity, unenforceability or termination of any Bond Document;
- (b) The modification or amendment (whether material or otherwise) of any obligation, covenant or agreement set forth in any Bond Document;
- (c) The voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment or other similar proceedings affecting the Academy, or any of its assets or any allocation or contest of the validity of this Agreement, or the disaffirmance of this Agreement in any such proceedings;
- (d) To the extent permitted by law, any event or action which would, in the absence of this clause, result in release or discharge by operation of law of the Academy, from the performance or observation of any obligation, covenant or agreement contained in any Bond Document;

(e) The default or failure of the Academy fully to perform any of its obligations set forth in any Bond Document or any other agreement with a third party for the payment of money or services in excess of \$50,000; or

(f) Any casualty or destruction of the Site.

The Authority shall have no liability for the performance of any obligations to the Academy except as expressly set forth in any Bond Document to which it is a party.

**Section 403. Payment Provisions.** In addition to Bond Payment obligations under the Municipal Obligation, which shall be calculated and paid as described below, the Academy agrees to pay to the Authority Additional Payments hereunder, which are (a) initially scheduled to be payable as set forth in Exhibit A hereto on the Payment Dates set forth in Section 405 below, and may be adjusted as set forth in Section 405 below, and (b) any amounts which may be required to be paid hereunder or under any Bond Document including but not limited to replenishment of the Reserve Fund and Additional Payments.

In the event of a default in the payment of the Bond Payments or Additional Payments when due, the amount of such default shall bear interest (the "additional interest") at a rate equal to the rate of interest which is two percent above the Authority's cost of providing funds (as determined by the Authority) to make payments on the Series 2008 Bonds of the Authority but in no event in excess of the maximum rate of interest permitted by law. The additional interest shall continue to accrue until the Authority has been fully reimbursed for all costs incurred by the Authority (as determined by the Authority) as a consequence of the Academy's default. Such additional interest shall be payable on the Payment Date following demand of the Authority.

It is expressly agreed between the Academy and the Authority by acceptance of the assignment made by this Agreement, that the Academy shall make all payments due hereunder at the designated trust office of the Trustee. The Academy further agrees that it will immediately deposit with the Trustee all payments due hereunder in immediately available funds. The Academy covenants and agrees that its obligations to make payments hereunder are obligations incurred with the Authority under the State School Aid Act, 1979 PA 94, as amended ("School Aid Act") and may be enforced by the Authority and the Trustee on behalf of the Authority as set forth in the State Aid Agreement.

**Section 404. Payment General Obligation.** The obligation of the Academy to pay Bond Payments, Additional Payments and all other payments hereunder is a general obligation of the Academy. The Academy shall and hereby agrees to include in its budget (either of the general fund or of a capital fund) and pay each year, until this Agreement and the Municipal Obligation are paid in full, such sum or sums as may be necessary each year to make payments of the Bond Payments, Additional Payments and all other payments hereunder and additional interest payments, when due. The Bond Payment obligations of the Academy hereunder and under the Municipal Obligation shall be deemed to be obligations of the Academy incurred in accordance with Section 504a(g) and Section 1351a of the School Code.

**Section 405. State School Aid Pledge and Payment.** The Academy unconditionally and irrevocably pledges to pay its Bond Payments and Additional Payments and all other amounts required by the Municipal Obligation and hereby or hereunder from its State School Aid to be allocated to it and payable to its Authorizing Body, subject to the 20% limitation stated below (the "Pledged State Aid") and grants a security interest in the Pledged State Aid. Unless otherwise agreed to in writing by the Authority, an amount of each installment of State School Aid (such moneys to be used to pay the Bond Payments and Additional Payments when due) as set forth on Exhibit A, which amount is approximately equal to 1/11 of the annual principal payments scheduled on the Series 2008 Bonds (the Scheduled Principal Component and the Set-Aside Component relating to principal) plus 1/11 (adjusted in the initial fiscal year to reflect interest accruing from the Closing Date) of the annual interest obligation (the Scheduled Interest Component and the Set-Aside Component relating to interest) plus 1/11 of the annual fees (the Scheduled Fee Payment Component) shall, pursuant to the written agreement of the Authorizing Body, be transmitted directly by the State Treasurer to the Trustee commencing on October 20, 2008 and thereafter on the



20th day of each calendar month (other than September) (each a "Payment Date"); provided however that if (i) applicable law changes to provide for a schedule of school aid payments materially different from that now in effect, or (ii) the Academy with the prior written consent of the Authority and all of the holders of the Series 2008 Bonds and receipt of a Favorable Opinion of Bond Counsel as to the adjusted schedule of optional redemption of the Series 2008 Bonds, may agree to a different schedule of optional redemption of the Series 2008 Bonds, the Authority, by written notice to the Trustee, the State Treasurer, the Academy and the Authorizing Body may designate different payment dates or amounts to provide for timely receipt of Bond Payments and Additional Payments consistent with such changes which shall thereupon be and become the "Payment Dates" hereunder. If the Payment Date falls on a Saturday, Sunday, or legal holiday, the Bond Payment shall be due on the next succeeding business day. The Bond Payments and Additional Payments, if any, to the Authority shall be made first from the State School Aid allocated to the Academy during the month of the payment. If, for any reason, the State School Aid allocated to the Academy during the month of payment is insufficient to pay the Bond Payment and Additional Payment, if any, then in that event the Academy pledges to use any and all other available funds to meet the Bond Payment obligation and Additional Payment obligation, if any. If, on any due date for any Bond Payment or Additional Payment, the funds with the Trustee are insufficient to pay the Bond Payment and Additional Payment, if any, then the Academy, pursuant to Section 17a(3) of the School Aid Act to the extent necessary to meet the payment obligation assigns to the Authority and unconditionally and irrevocably authorizes and directs the State Treasurer to intercept and/or advance to the Trustee such necessary funds not to exceed 97% of any payment which is dedicated for distribution or for which the appropriation authorizing payment has been made under the School Aid Act, subject to the 20% limitation stated below; and in such event pursuant to Section 17a(3) of the School Aid Act, the Authority is authorized, pursuant to the agreement of the Authorizing Body, to intercept and/or seek an advancement of 97% of the Pledged State Aid to be allocated or distributed to the Authorizing Body with respect to the Academy, subject to the 20% limitation stated below. The Trustee, on behalf of the Authority, shall immediately notify (or cause notice to be given to) the Academy and the Authorizing Body that it will immediately commence to intercept and/or receive an advancement of the Pledged State Aid and beginning immediately thereafter, the Authority shall intercept 97% of the Pledged State Aid to be distributed to the Authorizing Body with respect to the Academy. Notwithstanding the foregoing, however, the amount to be applied by the Trustee to Bond Payments hereunder from School Aid in any fiscal year of the State shall not exceed 20% of the amount of School Aid payable to the Academy by the State in such fiscal year.

The intercepted and/or advanced amount shall be transferred by the State Treasurer to the Trustee, deposited by the Trustee into the State Aid Intercept Account of the Bond Fund and applied in the following order of priority;

First, payment of any overdue and unpaid obligation to the Authority under this Agreement or the Municipal Obligation;

Second, payment of the Scheduled Principal Component, the Scheduled Set-Aside Component, the Scheduled Interest Component and the Scheduled Fee Payment Component of the Scheduled Installment Payment payable to the Authority under this Agreement;

Third, payment of Additional Payments; and

Fourth, to the Authorizing Body for distribution to the Academy or as otherwise directed by the Academy;

provided however, that the amounts disbursed by the Trustee representing Bond Payments in any fiscal year of the Academy shall not exceed 20% of the amount of state school aid payable to the Academy by the State in such fiscal year.

The process set forth above shall continue until sufficient funds are deposited with the Trustee to pay all Bond Payments and Additional Payments as determined by the Trustee. Section 17a(3) of the School Aid Act does not require the State to make an appropriation to any authorizing body, public school academy, other school district or intermediate school district and such appropriation shall not be construed as creating an indebtedness of the State.

The pledge of State School Aid pursuant to this section is subject to the reservation by the Academy of the right to make additional pledges of State School Aid to secure other obligations as provided in Section 707 hereof and provided that (a) the amount of State School Aid received by the Academy in the fiscal year of the State preceding the incurrence of such additional obligations equals or exceeds the amount required in each year to pay the sum of an amount equal to the Bond Payments and Additional Payments due and the principal and interest and other payments due under such additional obligations for which State School Aid has been pledged, and (b) the Academy is not then in breach under any Bond Document.

**Section 406. Mandatory and Optional Prepayments.** Subject to the Authority's right to optionally redeem the Series 2008 Bonds, the Academy may prepay its obligations under the Municipal Obligation and hereunder in whole or in part in Authorized Denominations. The Academy may direct the redemption of the corresponding amount of Series 2008 Bonds then outstanding on such dates and pursuant to the provisions and limitations, and upon payment of any required premium, set forth in Section 2.11(a) of the Indenture.

The Academy shall prepay its obligations hereunder at such times in order to enable the Trustee to redeem all or a portion of the Series 2008 Bonds as required in Section 2.11 of the Indenture.

If the Academy repays or prepays Bond Payments and other amounts owing to the Trustee under this Agreement and the Indenture in such a manner so as to permit the Security to be released from the lien of the Indenture in accordance with Article V of the Indenture, then the loan shall be deemed fully repaid, and this Agreement shall be canceled on the date on which the Security is so released. To confirm such cancellation, the Academy may require the Trustee to execute any further reasonable evidence of cancellation on the date the Security is so released.

In the event of any optional prepayment on or before the date set for redemption of the Series 2008 Bonds to be redeemed in connection therewith, the Academy shall deposit with the Trustee, an amount sufficient to pay the principal of, premium, if any, and interest on the Series 2008 Bonds and the Academy shall deposit with the Trustee sufficient moneys to pay all fees, costs, and expenses of the Authority and the Trustee specified in Section 407, Section 502, Section 503 and Section 903 hereof accruing through the date set for redemption of the Series 2008 Bonds.

**Section 407. Fee Payments.** To the extent they are not paid out of the Project Fund to the Authority, the Academy shall pay to the Authority within ten (10) days of demand therefor: (a) all Costs of Issuance and other out-of-pocket costs and expenses of the Authority incidental to the performance of its obligations under this Agreement, the Indenture and the Bond Placement Agreement and (b) the out-of-pocket expenses of the Authority incurred by the Authority in enforcing the provisions of this Agreement or the Indenture.

In addition to the aforesaid payments to the Authority, the Academy shall pay to the Authority (a) a one time issuance fee of one twentieth of one percent (1/20 of 1%) of the principal amount of the Series 2008 Bonds prior to or contemporaneously with execution of this Agreement, such fee will be reimbursed by the Authority in accordance with its fee schedule provided that the Authority has sufficient funds for such purpose at the time of execution of this Agreement and (b) on or before March 1 in each year, an amount sufficient to assure payment in full of the Academy's allocable share (as determined by the Authority) of the annual general operating expenses of the Authority, but such allocable share shall not exceed one twentieth of one percent (1/20 of 1%) of the average principal amount of the Series 2008 Bonds outstanding under the Indenture during the preceding calendar year.

**Section 408. Security Interest in the Indenture Funds.** To better secure its obligations hereunder, including the obligation to pay Bond Payments and Additional Payments, as and when they are due, the Academy hereby grants an exclusive security interest in the moneys at any time held in any of the funds and accounts held under the Indenture (excluding the Authority Funded Reserve Account) and any proceeds thereof, to the fullest extent of its interest therein, to the Trustee to be perfected by possession of such moneys in such funds and accounts by the Trustee and held therein for the benefit of the Bondholders as provided in the Indenture.



Section 409. Assignment by Authority. The Academy hereby consents to any assignments now or hereafter made by the Authority of the Authority's rights under this Agreement (except the Unassigned Rights) to the Trustee, and the Academy acknowledges that no further action, notice or consent by the Academy is necessary to effectuate such an unconditional and enforceable assignment.

Section 410. Authorized Academy Representative. The Academy hereby authorizes and directs the Authorized Academy Representative to act in the capacity of Authorized Academy Representative under the Indenture and hereunder.

Section 411. The Municipal Obligation and Obligations of the Academy Unconditional. The obligation of the Academy to pay the Bond Payments and Additional Payments and all other amounts required by the Municipal Obligation and any Bond Document to be paid by the Academy shall be an absolute and unconditional general obligation of the Academy and shall not be subject to diminution by set-off, recoupment, counterclaim, abatement or otherwise. Until the Series 2008 Bonds have been fully paid (or provision made therefor) in accordance with the Indenture, the Academy (i) shall not suspend or discontinue any Bond Payments or Additional Payments, (ii) shall perform and observe all of its other obligations contained in the Municipal Obligation and this Agreement and (iii) shall not terminate this Agreement for any cause, including, without limiting the generality of the foregoing, defect in title to the Site, any acts or circumstances that may constitute failure of consideration, destruction of, damage to or condemnation of the Site, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Michigan or any political subdivision of either, or any failure of the Authority to perform and observe any of its obligations arising out of or connected with this Agreement. It is the intent and expectation of the parties hereto that the Bond Payments will be sufficient for the payment in full of the Series 2008 Bonds, including (i) the total interest to become due and payable on the Series 2008 Bonds to the dates of payment thereof, (ii) the total principal amount of the Series 2008 Bonds, (iii) the redemption premiums, if any, that shall be payable on the redemption of the Series 2008 Bonds prior to their stated payments dates, and (iv) all additional interest, additional principal and any other amounts payable to the Trustee as and when required by the Series 2008 Bonds or this Agreement. In the event, however, of any deficiency in the payment of such amounts regardless of the reason for such deficiency, the Academy agrees that upon notice of the deficiency from the Trustee or the Authority it shall then immediately pay the amount of the deficiency to the Trustee on behalf of the Authority. The obligations of the Academy under this paragraph shall survive the termination of this Agreement.

## ARTICLE V

### OTHER OBLIGATIONS OF THE ACADEMY

Section 501. Costs of Issuance. The Academy covenants and agrees to promptly pay the Costs of Issuance upon notification by the Authority.

Section 502. Indemnification of the Authority.

(a) The Authority and its members, officers, agents and employees (the "Indemnified Persons") shall not be liable to the Academy for any reason. The Academy shall, to the extent permitted by law, indemnify and hold the Authority and the Indemnified Persons harmless from any loss, expense (including reasonable counsel fees) or liability of any nature due to any and all suits, actions, legal or administrative proceedings, or claims arising or resulting from, or in any way connected with:

(i) the financing, construction, operation, use or maintenance of the Site;

(ii) any act, failure to act or misrepresentation by any person, firm, corporation or governmental agency, including the Authority, in connection with the issuance, sale, delivery or remarketing of any of the Series 2008 Bonds;

(iii) any act or failure to act by the Authority in connection with this Agreement or any other document involving the Authority in this matter; and

(iv) the selection and appointment of firms or individuals providing services related to the Series 2008 Bond transactions. If any suit, action or proceeding is brought against the Authority or any Indemnified Person, that suit, action or proceeding shall be defended by counsel to the Authority or the Academy, as the Authority shall determine. If the defense is by counsel to the Authority, which is the Attorney General of Michigan or may, in some instances, be private, retained counsel, the Academy shall indemnify the Authority and Indemnified Persons for the reasonable costs of that defense, including reasonable counsel fees. If the Authority determines that the Academy shall defend the Authority or Indemnified Persons, the Academy, as determined by the Authority, shall immediately assume that defense at its own cost. The Academy shall not be liable for any settlement of any proceedings made without its consent (which consent shall not be unreasonably withheld).

(b) The Academy shall not be required to indemnify the Authority or any Indemnified Person under subsection (a), if a court with competent jurisdiction finds that the liability in question was caused by the willful misconduct or sole gross negligence of the Authority or the involved Indemnified Person, unless the court determines that, despite the adjudication of liability but in view of all circumstances of the case, the Authority or the Indemnified Person(s) is (are) fairly and reasonably entitled to indemnity for the expenses which the court considers proper.

(c) The Academy shall, to the extent permitted by law, also indemnify the Authority for all reasonable costs and expenses, including reasonable counsel fees, incurred in (i) enforcing any obligation of the Academy under this Agreement or any related agreement, (ii) taking any action requested by the Academy, (iii) taking any action required by this Agreement or any related agreement, or (iv) taking any action considered necessary by the Authority which is authorized by this Agreement or any related agreement.

(d) The obligations of the Academy under this section shall survive any assignment or termination of this Agreement.

**Section 503. Indemnification of the Trustee.** The Academy shall, to the extent permitted by law, indemnify and hold the Trustee harmless against any loss, liability or expense incurred without bad faith, gross negligence or willful misconduct on the part of the Trustee, arising out of or in connection with the acceptance or administration of the Indenture, including the costs and expense of defense against any such claim of liability. In the event of the occurrence of any claim indemnified against under this paragraph, the Trustee shall promptly notify the Academy of the existence of the claim and shall give the Academy such assistance and cooperation in the defense thereof as may be reasonably requested. The Academy shall defend any such claim through legal counsel of its choice, and the Academy shall have exclusive authority to defend, settle or otherwise dispose of such claim as it deems advisable in the exercise of its sole discretion. The obligations of the Academy under this Section shall survive any assignment or termination of this Agreement and the resignation or removal of the Trustee.

**Section 504. Taxes and Other Costs.** The Academy shall promptly pay, as the same becomes due, all lawful taxes and governmental charges of any kind whatsoever, including without limitation income, profits, receipts, business, property and excise taxes, with respect to any estate, interest, documentation or transfer in or of the Site, this Agreement or any payments with respect to the foregoing, the costs of all building and other permits to be procured, and all utility and other charges and costs incurred in the operation, maintenance, use, occupancy and upkeep of the Site.

**Section 505. Authority and Trustee Right to Perform Academy Obligations.** In the event the Academy shall fail to perform any of its obligations under this Agreement, the Authority and the Trustee may, but shall be under no obligation to, perform such obligation and pay all costs related thereto, and all such costs so advanced by

the Authority or the Trustee shall become an additional obligation of the Academy to the Authority or the Trustee, secured under the Indenture, payable on demand with interest thereon at 2% per annum in excess of the average rate per annum borne by the Series 2008 Bonds from the date of advancement until payment, but in no event in excess of the maximum rate permitted by law.

#### Section 506. Audit Obligation.

(a) The Academy shall have an independent audit, using generally accepted accounting principles generally used for public school accounting in the State of Michigan, of its financing activities under these sections conducted within 120 days after completion of all projects financed by the proceeds of this Agreement and shall submit the audit report to the Michigan Department of Treasury.

(b) The Trustee and each Bondholder shall automatically receive from the Academy the following reports:

(i) Annual Reports and Information. Within 120 days after the close of each fiscal year (A) copies of its audited financial statements including a balance sheet, operating statement and cash flow statement prepared in accordance with generally accepted accounting principles generally used for public school accounting in the State of Michigan, certified by its independent auditor, (B) copies of the management letter delivered by the Academy's independent auditor in connection with such financial statements; (C) a report comparing the actual operating expenses incurred during such fiscal year to the operating expenses shown on the Operating Budget for such fiscal year; and (D) a certificate signed by its chief operating officer stating that the Academy has caused its operations for the year to be reviewed and that in the course of that review, no Default under any other Bond Document has come to its attention or, if such a Default has appeared, a description of the Default and a plan for the remedy of the Default.

(ii) Quarterly Reports and Information. Within thirty (30) days after the close of each quarter of each fiscal year, copies of its internally generated financial statements for such quarter and year to date (including a balance sheet, operating statement and cash flow statement, prepared on the same basis as the annual financial statements), together with a supplemental report of the operating statistics of the Academy, including month end enrollment for each month and a comparison of actual results for such period and year to date to the operating budget, and any other operating information which any such Bondholder or the Trustee may reasonably request.

Section 507. Indemnification of the Bondholders. The Academy shall, to the extent permitted by law, indemnify and hold any Bondholder harmless against any loss, liability or expense, including interest, penalties or other charges assessed to them, if any, arising out of a Determination of Taxability (including any interest penalties or other charges assessed to any Bondholders for failure to include interest on the Bonds in such Bondholder's gross income prior to the date of the Determination of Taxability).

## ARTICLE VI

### PROJECT FUND DISBURSEMENTS

Section 601. Project Fund Disbursements. Subject to the conditions set forth below, unless an Event of Default has occurred and is continuing, the Trustee shall disburse out of the Project Fund, on the date of receipt, (a) an amount equal to \$\_\_\_\_\_ to pay principal and accrued interest, if any, on the Existing Indebtedness To Be Discharged, and (b) the Costs of Issuance or to reimburse the Academy for its funds actually advanced for the Costs of Issuance. Such disbursements shall be used to accomplish the Academy Refunding and to pay the Costs of Issuance (or to reimburse the Academy for its funds actually advanced for the Costs of Issuance) so long as there are

moneys in the Project Fund, upon presentation of a Requisition Certificate executed by the Academy in the form shown on Exhibit C attached hereto or in a form approved by the Authorized Officer of the Trustee and the Authority.

Prior to the first disbursement, in addition to all other instruments and documents required to be delivered pursuant to the Indenture, the Bond Placement Agreement and this Agreement, the Academy shall have delivered to the Trustee (i) a marked-up loan policy of title insurance commitment from a title insurance company satisfactory to the Trustee, naming the Trustee as lender, without standard exceptions, in the amount specified in Section 604 of this Agreement, insuring that the Mortgage is a first lien in all respects on the unencumbered marketable fee simple absolute title to the Site, subject only to Permitted Encumbrances, and (ii) evidence of payment of fees relating thereto.

Each Requisition Certificate shall be accompanied by copies of invoices or other appropriate documentation satisfactory to the Trustee, supporting the payments or reimbursements requested; provided that the Trustee shall have no duty or obligation to review such invoices and may conclusively rely on such requisitions.

**Section 602. Use of Surplus Funds.** As soon as practicable and in any event no longer than three (3) years from the Issue Date, the Academy shall direct the Trustee to transfer any balance remaining in the Project Fund (i.e. "Surplus Bond Proceeds") to the Bond Fund, for use in accordance with the Indenture.

**Section 603. Application of Insurance and Condemnation.** In the event (i) the Site is damaged or destroyed, or (ii) failure of title to all or part of the Site occurs or title to or temporary use of the Site is taken by condemnation or by the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Academy shall promptly give written notice thereof to the Authority and the Trustee. As soon as practicable, but not later than sixty (60) days after such damage or condemnation, the Academy shall elect in writing whether to restore all or part of the Site or to prepay this Agreement. The Academy may only restore all or part of the Site if it demonstrates to the Trustee that (i) it has sufficient money available to it (including insurance proceeds) to complete such restoration, and that following such restoration it will have sufficient net revenues to meet its obligations under this Agreement and the payment of the Bond Payments and Additional Payments and all other payments by the Academy required under the Bond Documents and the appraised value of such restored Site is at least the then-outstanding par amount of the Bonds, and (ii) such restoration will not cause interest on the Series 2008 Bonds which would otherwise be excludable from gross income for federal income tax purposes to be included in gross income for federal income tax purposes. If the Academy chooses to restore all or part of the Site, the Trustee shall deposit the proceeds of such condemnation or insurance in the Project Fund, which shall be reactivated and drawn down in the same manner as provided for the Project Fund in Section 601. If the Academy shall elect to restore the Site, it shall proceed to do so with reasonable dispatch. If the Site shall have been so damaged or destroyed, or if failure of title or condemnation or taking of such part thereof shall have been taken so that the Site may not be reasonably restored within a period of 12 consecutive months (or such longer period of time as is acceptable to the Trustee) to its condition immediately preceding such damage or destruction or failure of title, or if the conditions set forth in clause (i) of the third sentence of this Section 603 cannot be satisfied, or if the Academy is thereby prevented from carrying on its normal operations for a period of 12 consecutive months (or such longer period of time as is acceptable to the Trustee), or if the cost of restoring the Site is reasonably deemed by the Academy to be uneconomic and the Academy abandons the Site, then, unless waived by a Majority of the Bondholders, all proceeds of such insurance or condemnation shall be transferred to the Bond Fund and used for payment or redemption of the Series 2008 Bonds.

**Section 604. Mortgage and Title Insurance.** At or prior to the Closing Date, the Academy shall cause to be executed and delivered and cause to be recorded the Mortgage securing performance by the Academy of its obligations under this Agreement and the payment of the Bond Payments, Additional Payments and all other payments required by any Bond Document by the Academy. The Mortgage shall grant to the Trustee a first mortgage lien on all real property, improvements and equipment comprising or located on the Site, subject to Permitted Encumbrances.

At or prior to the Closing Date, the Academy shall cause to be delivered to the Trustee a lender's policy of title insurance on the Site in favor of the Trustee, insuring the first priority lien of the Mortgage, subject only to Permitted Encumbrances (as defined in the Mortgage). The title policy shall provide for title insurance in an amount equal to the full principal amount of the Series 2008 Bonds.

## ARTICLE VII

### FURTHER OBLIGATIONS OF THE ACADEMY

**Section 701. Compliance With Laws.** The Academy agrees that it shall, throughout the term of this Agreement and at no expense to the Authority, promptly comply or cause compliance with all legal requirements of duly constituted public authorities which may be applicable to the Site or to the repair and alteration thereof, or to the use or manner of use of the Site.

**Section 702. Maintenance of Legal Existence Qualification.** During the term of this Agreement, and except as otherwise provided by Section 706 hereof, the Academy shall maintain its existence and shall not dissolve or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another entity or permit one or more entities to consolidate with or merge into it without the prior written consent of the Authority.

**Section 703. Reports and Access to the Site and to Records.** The Academy covenants that promptly, but not later than one hundred twenty (120) days after the close of each fiscal year, it will file with the Authority and the Trustee, in such quantity as the Authority may require, its audited financial statements for such fiscal year reflecting in reasonable detail the financial position and results of operation of the Academy, together with the audit report by a certified public accountant or firm of independent certified public accountants of suitable experience and responsibility. The Trustee shall have no duty to review or analyze such financial statements and shall hold such financial statements solely as a repository for the benefit of the Bondholders. The Trustee shall not be deemed to have notice of any information contained therein or deemed to have notice of an event of default which may be disclosed therein in any manner.

The Academy further covenants and agrees that it will promptly file with the Authority a copy of all documentation, materials and notices filed by or on behalf of the Academy pursuant to or in connection with any continuing disclosure undertaking relating to the Series 2008 Bonds or other debt incurred by or for the benefit of the Academy.

The Academy covenants to provide a copy of its proposed annual budget and any budget amendments to the Trustee and upon request of any Bondholder (which may be delivered as a standing request) for review and comment at least ten (10) days prior to its approval.

The Academy further covenants and agrees that it has, with the permission of any applicable third parties, placed on file with the Trustee a current property survey of the Site, together with a Phase I Environmental Site Assessment, dated June 30, 2008, performed by ATC Associates, Inc. of Novi, Michigan.

Subject to reasonable security, safety regulations and reasonable notice, the Authority and the Trustee, and the respective duly authorized agents of each, and any Bondholder shall have the right at all reasonable times to enter the Site and to examine and inspect the same, and the books and records of the Academy, wherever located.

**Section 704. Covenant as to Non-Impairment of Tax-Exempt Status.** Notwithstanding any other provision of any rights of the Academy under this Agreement, the Academy hereby covenants that, to the extent permitted by law, it shall take all actions within its control and that it shall not fail to take any action as may be necessary to maintain the exclusion of the interest on the Series 2008 Bonds from gross income for federal income tax purposes, on behalf of itself and the Authority, including but not limited to, actions relating to the rebate of arbitrage earnings and the expenditure and investment of Series 2008 Bond proceeds and moneys deemed to be Series 2008 Bond proceeds, all as more fully set forth in the Non-Arbitrage Certificate.



**Section 705. Covenant Regarding Bond Purchases.** The Academy covenants that neither it nor any related person will purchase Series 2008 Bonds in an amount related to the amount of proceeds of such Series 2008 Bonds.

**Section 706. Academy to Maintain Existence.** The Academy covenants and agrees that for so long as any Series 2008 Bond remains Outstanding under the Indenture, it shall maintain its existence as a Public School Academy under Michigan law and shall continue to operate its facilities located at the Site as a public school which will produce sufficient available revenues to pay the Bond Payments and all other amounts due and owing under this Agreement. Notwithstanding the foregoing, the Academy shall have the right to cease operations at the Site upon (a) prepayment in full of the Bond Payments, Additional Payments and any prepayment premium required by the Authority as determined in the sole discretion of the Authority and (b) filing an opinion of Bond Counsel that such prepayment and release will not adversely affect the exclusion of interest on the Series 2008 Bonds from gross income for federal income tax purposes.

**Section 707. Other Obligations.** The Academy covenants and agrees that, without the prior written consent of the Trustee or the Majority of the Bondholders, it will not incur indebtedness for borrowed money, guarantee the obligations of others or incur pecuniary obligations, except the following:

(a) obligations incurred in the ordinary course of business and reflected in its annual budget, as amended, under an itemized or general description;

(b) state aid notes (including state aid note lines of credit) issued pursuant to the School Code and reflected in its annual budget, as amended; and

(c) other indebtedness incurred in accordance with applicable law related to capital acquisitions provided that the aggregate maximum annual debt service on such indebtedness, in any fiscal year, together with the applicable Scheduled Installment Payment hereunder for such year, shall not exceed 20% of the amount of State School Aid payable to the Academy by the State in such fiscal year. For purposes of computing future projections of State School Aid, the amount of State School Aid expected to be paid to the Academy for the Academy's current fiscal year computed using the number of students certified as of the September count date of the current fiscal year shall be used.

(d) Notwithstanding the foregoing, the Academy covenants and agrees that the amount of State School Aid to be received by the Academy shall be at least the total of the Bond Payments, Additional Payments and all payments on such other Obligations to which State School Aid has been pledged due in such fiscal year.

**Section 708. Transfer, Assignment and Leasing.** The Academy may not transfer or sell the Site without the prior written consent of the Authority and 100% of the Beneficial Owners of the Series 2008 Bonds and any Additional Bonds. The Academy may lease any portion of the Site with the prior written consent of the Trustee and the holders of 100% of the Series 2008 Bonds provided that the Academy delivers to the Authority and the Trustee in connection with any such leasing a Favorable Opinion of Bond Counsel with respect to such lease. No leasing shall relieve the Academy from primary liability for any of its obligations hereunder, and in the event of any such leasing the Academy shall continue to remain primarily liable for the payment of Bond Payments and for performance and observance of the other agreements herein on its part to be performed and observed.

(a) Approval of the sale or conveyance of the Site by the Authority shall be in its sole discretion;

(b) The Academy shall, on or prior to the effective date of such sale or assignment, furnish or cause to be furnished to the Authority and the Trustee (i) an executed assumption agreement whereby the new owner agrees in writing to assume the obligations of the Academy under this Agreement and the Bond Documents to which the Academy is a party, together with the Trustee's written consent

thereto or the written consent of the holders of 100% of the Series 2008 Bonds, and (ii) a Favorable Opinion of Bond Counsel with respect to such assignment or sale agreement; and

(c) The new owner shall submit evidence to the Trustee that it is qualified to do business as a public school academy in the State of Michigan.

**Section 709. Substitution and Removal of Personal Property.** Any property refinanced with Series 2008 Bond proceeds may not be removed from the Site unless (i) other property of equivalent or greater value and utility is substituted therefor within six months of such disposition or (ii) the proceeds of the sale of such property are used in accordance with the following sentence or (iii) the Academy receives a Favorable Opinion of Bond Counsel that noncompliance with (i) or (ii) above will not adversely affect the exclusion of interest on the Series 2008 Bonds from gross income for federal income tax purposes. Any proceeds received upon the sale of any of the property refinanced with the proceeds of the Series 2008 Bonds (i) will be invested at a yield not in excess of the yield on the Series 2008 Bonds and used for the purpose of redeeming the Series 2008 Bonds at the first subsequent call date, or (ii) will be used for the purpose of acquiring property performing the same function at such Site as the disposed property within six months of the date of receipt of such proceeds. Notwithstanding the foregoing, if any property financed or refinanced with the proceeds of the Series 2008 Bonds wears out or becomes obsolete so that it is no longer functional to the Academy and the Academy deems it appropriate to dispose of such property and, further, if the Academy or any related party thereto receives no economic benefit from the disposal thereof, then the Academy may dispose of such property other than as provided above.

**Section 710. Maintenance, Repair and Modification.** The Academy shall cause the Site to be used for the purposes described in this Agreement throughout the term of this Agreement. The Academy does not know of any reason why the Site will not be used and occupied by it in the absence of supervening circumstances not now anticipated by it or beyond its control. The failure of the Academy to use the Site for its intended purposes shall not in any way abate or reduce the obligation of the Academy to pay the Bond Payments and the Additional Payments under the provisions of this Agreement.

The Academy agrees that it will keep the Site in good repair and good operating condition, ordinary wear and tear excepted, at its own cost.

The Academy may remodel the Site or make additions, modifications and improvements to the Site from time to time as the Academy, in its discretion, may deem to be desirable, the cost of which shall be paid by the Academy; provided, however, that such additions, modifications and improvements (i) do not materially and adversely alter the scope, character, value or operation of the Site without the prior written consent of the Trustee or 100% of the holders of the Series 2008 Bonds, (ii) do not impair the exclusion of interest on the Series 2008 Bonds from gross income for federal income tax purposes and (iii) do not contravene the provisions of the Enabling Legislation.

**Section 711. Liability Insurance.** The Academy shall procure and maintain or cause to be procured and maintained continuously in effect with respect to the Site comprehensive general accident and public liability insurance covering any liability arising out of or in any way relating to the maintenance, use or operation of the Site or any part thereof, under which the Academy and the Trustee are named as insureds, in an amount not less than \$1,000,000 combined single limit for bodily injuries and property damage and will cause all contractors to maintain similar insurance against all similar liabilities on their part. The Net Proceeds of all such insurance shall be applied as set forth in Section 603 hereof.

**Section 712. Negligence of the Academy.** As between the Academy and the Authority, the Academy agrees to defend the Authority against all risks and liabilities, whether or not covered by insurance, for loss or damage to the Site and for injury to or death of any person or damage to any property, whether such injury or death be with respect to agents or employees of the Academy or of third parties, and whether such property damage be to property of the Academy or the property of others, which is proximately caused by the negligent conduct of the Academy, its officers, employees and agents. The Academy hereby assumes responsibility for and agrees to defend



and to reimburse the Trustee with respect to all liabilities, obligations, losses, damages, penalties, claims, actions, costs and expenses (including reasonable attorney's fees) of whatsoever kind and nature, imposed on, incurred by or asserted against the Trustee that in any way relate to or arise out of a claim, suit or proceeding based in whole or in part upon the negligent conduct of the Academy, its officers, employees and agents, to the maximum extent permitted by law.

**Section 713. Property Insurance.** As between the Academy and the Authority, the Academy shall have and assume the risk of loss with respect to the Site, and shall procure and maintain continuously in effect during the term of this Agreement with respect to the Site, to the extent of the full replacement cost of the Site, other than land and building foundations, all-risk insurance, subject only to the standard exclusions contained in the policy, in such amount as will be at least sufficient so that a claim may be made for the full replacement cost of any part thereof damaged or destroyed, and including business interruption insurance in an amount sufficient to pay Scheduled Installment Payments for a period of twelve months. All policies (or endorsements or riders) evidencing insurance required in this Section shall be carried in the names of the Academy and Trustee as their respective interests may appear (including containing a lender's loss payable endorsement), shall not contain co-insurance provisions and shall contain other terms reasonably acceptable to the Trustee and not in contravention of the Academy's Charter. The Net Proceeds of insurance required by this Section shall be applied as provided in Section 603 hereof; provided that the Net Proceeds of business interruption insurance shall be applied to the payment of Scheduled Installment Payments, Additional Payments and Reserve Fund Payments.

**Section 714. Worker's Compensation Insurance.** The Academy shall carry or cause to be carried workers' compensation insurance covering all employees on, in, near or about the Site, and upon request, shall furnish to Trustee certificates evidencing such coverage throughout the term of this Agreement.

**Section 715. Other Insurance and Requirements for All Insurance.** The Academy shall obtain and maintain or cause to be obtained and maintained during the term of the Agreement such other insurance policies covering such other risks and in such amounts as are customarily maintained by educational institutions similar to the Academy in the ordinary course of their business. All insurance required by this Article may be carried under a separate policy or a rider or endorsement; shall be taken out and maintained with responsible insurance companies organized under the laws of one of the states of the United States and qualified to do business in the State; and shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to all parties at least thirty (30) days before the cancellation or revision becomes effective. The Academy shall deposit with Trustee policies evidencing any such insurance procured by it, or a certificate or certificates of the respective insurers stating that such insurance is in full force and effect. Before the expiration of any such policy, the Academy shall furnish to Trustee evidence that the policy has been renewed or replaced by another policy conforming to the provisions of this Article.

**Section 716. Management Agreement.** The Academy shall not amend its current Management Agreement or enter into a new Management Agreement relating to the Site, unless prior to entering into such amendment or new Management Agreement the Academy obtains a Favorable Opinion of Bond Counsel with respect to such amendment or new Management Agreement and provides thirty (30) days prior notice to the Trustee. The Academy shall not enter into a new Management Agreement, appoint a new manager or enter into a material modification of a Management Agreement (by way of example, a modification of the compensation or an extension of the term greater than 90 days is a material modification) without the prior written consent of a Majority of the Bondholders.

## ARTICLE VIII

### ACTIONS AFFECTING AUTHORITY; INTEREST IN THIS AGREEMENT

Section 801. Interest in this Agreement. The Academy shall not assign or transfer its rights or obligations under this Agreement, except as shall be permitted in this Agreement or consented to by the Authority and the Trustee.

Section 802. Authority Assignment of this Agreement. The Academy hereby acknowledges and consents to the assignment and pledge pursuant to the Indenture by the Authority to the Trustee, as additional security for the Series 2008 Bonds, of the Municipal Obligation and this Agreement and all of the Authority's rights and powers under this Agreement (except the Unassigned Rights) including the right to receive Bond Payments and Additional Payments.

Section 803. Rights of Trustee Hereunder. The terms of this Agreement and the enforcement thereof are essential to the security of the Trustee and are entered into for the benefit of the Trustee. The Trustee shall accordingly have contractual rights and duties in this Agreement and be entitled to enforce separately or jointly with the Authority the terms of this Agreement or the Indenture against all parties in the Trustee's own name and for its own account without joining the Authority.

Section 804. Authority Compliance With Indenture. The Authority shall promptly comply with the covenants, requirements and provisions of the Indenture and perform all of its obligations thereunder.

Section 805. Supplements to Indenture. The Authority shall consent to no supplements, modifications or waivers to the Indenture which have a material effect on the rights or obligations of the Academy or the Trustee without the prior written consent of the Academy and the Trustee, respectively.

## ARTICLE IX

### EVENTS OF DEFAULT AND REMEDIES

Section 901. Events of Default. The term "Events of Default" shall mean, whenever used in this Agreement, any one or more of the following events:

- (a) Failure by the Academy to make a Bond Payment under the Municipal Obligation when due;
- (b) Failure by the Academy to make an Additional Payment hereunder when due;
- (c) Failure by the Academy to observe and perform any other obligation in any Bond Document, or in any other related or collateral documents on its part to be observed or performed for a period of forty-five (45) days after written notice specifying such failure and requesting that it be remedied, given to the Academy by the Authority or the Trustee; provided, however, that if said Default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if the Default, in the opinion of the Trustee, is correctable without material adverse effect on the Series 2008 Bonds and if corrective action is instituted within such period and diligently pursued until the Default is corrected, but in no event shall such period exceed one hundred and twenty (120) days;
- (d) The dissolution or termination of the Academy or failure by the Academy promptly to lift any execution, garnishment or attachment of such consequences as will materially impair its ability to carry out its obligations under this Agreement or the Academy becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors or consents to the appointment of a trustee or

receiver for the Academy or for the greater part of its properties; or a trustee or receiver is appointed for the Academy or for the greater part of its properties without its consent and is not discharged within sixty (60) days; or bankruptcy, reorganization or liquidation proceedings are commenced by or against the Academy, and if commenced against the Academy are consented to by it or remain undismissed for sixty (60) days; or an order for relief is entered in any bankruptcy proceeding;

(e) If any representation or warranty made by the Academy in any Bond Document or any other document delivered by the Academy to the purchaser(s) of the Series 2008 Bonds, the Trustee or the Authority in connection with the issuance, sale and delivery of the Series 2008 Bonds is untrue in any material respect;

(f) If the Academy shall default under any other agreement for payment of money in excess of \$25,000 (other than the Helicon Lease) and such default shall not be cured within any period of grace provided in such agreement, if any, or if the Academy shall assign or convey or attempt to assign or convey any of its rights or obligations under this Agreement except as shall be permitted under this Agreement, provided, however, that the Academy shall not be in default under this section, if it is contesting in good faith any default under any such other agreement for the payment of money and, with respect to construction liens, has bonded over such lien to the satisfaction of the Trustee, unless in the estimation of the Trustee the security of the Trustee under this Agreement is materially endangered;

(g) The occurrence of an Event of Default under the Indenture;

(h) The loss of its charter or the failure of the Academy to have its charter renewed, unless a charter from another authorizing body is received on or before the effective date of revocation or nonrenewal and a state aid agreement in form and content the same as the agreement executed in connection herewith is executed by such new authorizing body on or before the effective date of revocation or nonrenewal; or

(i) If the Academy shall disaffirm, disclaim, repudiate or reject, in whole or in part, or challenge the validity of, any Bond Document.

The term "Default" shall mean default by the Academy in the performance or observance of any of the covenants, agreements or conditions on its part contained in this Agreement, exclusive of any period of grace or notice required to constitute an Event of Default.

The Defaults described in subsection (c) above only, are also subject to the following limitation: If the Academy by reason of force majeure is unable to carry out or observe the obligations described in said subsection (c), the Academy shall not be deemed to be in breach or violation of this Agreement or in default during the continuance of such inability. The term "force majeure" as used herein shall include, without limitation, acts of God, strikes, lockouts or other disturbances; acts of public enemies; inability to comply with or to cause compliance with laws, ordinances, orders, rules, regulations or requirements of any public authority or the government of the United States of America or the State of Michigan or any of their departments, agencies, or officials, or any civil or military authority; inability to procure or cause the procurement of building permits, other permits, licenses or other authorizations required for the construction, use, occupation, operation or management of the Site; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event other than financial inability not reasonably within control of the Academy. The Academy agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Academy from carrying out its agreements; provided, however, that the settlement of strikes, lockouts and other disturbances shall be entirely within the discretion of the Academy, and the Academy shall not be required to make settlement of strikes, lockouts and other disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Academy not in the best interests of the Academy.

**Section 902. Remedies Upon an Event of Default.** Whenever any Event of Default shall have occurred and be continuing, the Authority or the Trustee may take any one or more of the following remedial steps:

- (a) Declare all indebtedness under any Bond Document (i.e., Bond Payments, Additional Payments and all other payments required by this Agreement) to be immediately due and payable, whereupon the payment date for the same shall become immediately accelerated and all such indebtedness shall become immediately due and payable;
- (b) Have access to and inspect, examine and make copies of the books and records and any and all accounts, data and income tax and other tax returns of the Academy only, however, insofar as they relate to the Site or the Event of Default and remedying thereof;
- (c) Exercise and enforce all or any of its rights under the security interests granted in any Bond Document and the Mortgage; and/or
- (d) Petition a court of competent jurisdiction for the appointment of a receiver to take possession of and manage and operate all or any part of the assets of the Academy for the benefit of the Authority and the Trustee.

No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy now or hereafter existing at law or in equity or by statute.

Any amounts collected pursuant to action taken under this Section shall be paid into the Bond Fund and applied in accordance with the Indenture, except amounts collected pursuant to ARTICLE IV for the benefit of the Authority which shall be paid to or retained by the Authority.

**Section 903. Payment of Attorneys' Fees and Other Expenses.** In the event the Academy should default under any of the provisions of this Agreement and the Authority and/or the Trustee should employ attorneys or incur other expenses for the collection of the Bond Payments and Additional Payments, for the enforcement of performance or observance of any obligation of the Academy in this Agreement or of the foreclosure of any security interests granted in this Agreement, the Academy shall on demand therefor promptly pay to the Authority and/or the Trustee, as the case may be, the reasonable fees of such attorneys and such other reasonable expenses so incurred.

**Section 904. Limitation on Waivers.** No delay or omission to exercise any right or power occurring upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed appropriate. In order to entitle the Authority or the Trustee to exercise any remedy under this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

In the event any agreement contained in this Agreement should be breached by any party and thereafter waived by the other parties, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder nor a waiver of the same breach on a future occasion. By reason of the assignment and pledge of certain of the Authority's rights and interest in this Agreement to the Trustee, the Authority shall have no power to waive or release the Academy from any Event of Default or the performance or observance of any obligation or condition of the Academy under any Bond Document without prior written consent of the Trustee, but shall do so if requested by the Trustee, provided that prior to such waiver or release by the Authority, the Authority shall have been provided with an opinion of bond counsel of nationally recognized standing that such action will not result in any pecuniary liability to it and the Authority shall have been provided such indemnification from the Trustee as the Authority shall deem necessary.

## ARTICLE X

### MISCELLANEOUS

Section 1001. Amounts Remaining in Funds. Any amounts remaining in the Bond Fund or the Project Fund upon expiration or sooner termination of this Agreement after payment in full of the Series 2008 Bonds (or provision therefor) in accordance with the Indenture, and all other costs and expenses of the Authority and the Trustee specified under this Agreement, and all the amounts required to be paid by the Academy under this Agreement and the Indenture shall have been fully paid, shall be applied as provided in the Indenture.

Section 1002. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered or certified mail, postage prepaid, return receipt requested, addressed to the Authority, the Academy or the Trustee, as the case may be, at the Authority's address, the Academy's address, or the Trustee's address as provided in the Indenture, respectively, or hand delivered to the above at their respective addresses. A duplicate copy of each such notice, certificate or other communication given hereunder to the Authority or the Trustee shall also be given to the others.

The Authority, the Academy, and the Trustee may by notice given hereunder designate any further or different addresses to which subsequent notices, certificates or communications shall be sent.

Section 1003. Amendment. The provisions of this Agreement may not be amended, supplemented, waived or terminated without the prior written consent of the Trustee and the Authority, and no amendment to this Agreement shall be binding upon either party hereto until such amendment is reduced to writing and executed by both parties hereto. Amendments to this Agreement are subject to the provisions of Sections 9.03 and 9.04 of the Indenture.

Section 1004. Entire Agreement. This Agreement contains all agreements between the parties and there are no other representations, warranties, promises, agreements or understandings, oral, written or inferred, between the parties, unless reference is made thereto in this Agreement and the Indenture.

Section 1005. Binding Effect. This Agreement shall be binding upon the parties hereto and upon their respective successors and assigns, and the words "Authority," "Academy" and "Trustee" shall include the parties hereto and their respective successors and assigns and include any gender and singular and plural, any individuals, partnerships or corporations.

Section 1006. Severability. If any clause, provision or section of this Agreement be ruled invalid or unenforceable by any court of competent jurisdiction, the invalidity or unenforceability of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections.

Section 1007. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 1008. Captions. The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions of this Agreement.

Section 1009. Applicable Law. This Agreement shall be governed in all respects, whether as to validity, construction, performance or otherwise, by the laws of the State of Michigan.

Section 1010. Non-Liability of State. This Agreement shall not be construed to create any liability or indebtedness of the State of Michigan, or of any officer thereof.

Section 1011. Non-Liability of Authorizing Body. The Authority and the Trustee, on behalf of the Bondholder, each understands and agrees that the Authorizing Body has not agreed to assume, undertake or in any way guarantee payment of the Academy's obligations from any source of revenue available to the Authorizing Body, including the administrative fee deducted by the Authorizing Body from the state school aid payments received by the Authorizing Body for the Academy.

Section 1012. The Indenture. The Academy agrees to be bound by the terms of the Indenture applicable to it, and agrees not to take any action which would cause the Authority or the Trustee to violate the terms of the Indenture.

*(Signatures to Financing Agreement)*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

**MICHIGAN PUBLIC EDUCATIONAL  
FACILITIES AUTHORITY**

By: \_\_\_\_\_  
Kathleen K. O'Keefe  
Authorized Officer

**CRESCENT ACADEMY**

By: \_\_\_\_\_  
Farrita Jackson  
Its: Authorized Officer

Financing Agreement - Crescent Academy.DOC

**EXHIBIT A  
TO  
FINANCING AGREEMENT**

**BOND PAYMENTS**

See attached.



Schedule of Intercept Amounts Assigned

Pursuant to the Financing Agreement

See attached.

**EXHIBIT B  
TO  
FINANCING AGREEMENT**

**EXISTING INDEBTEDNESS TO BE DISCHARGED**

"Existing Indebtedness To Be Discharged" means the \$7,090,000 Full Term Certificates of Participation (Crescent Academy Project), Series 2006, evidencing proportionate interests thereof under a Declaration of Trust, dated as of December 1, 2006, by U.S. Bank National Association, as trustee, and joined in by Dr. Charles Drew Academy and the Academy.

The Existing Indebtedness To Be Discharged is currently outstanding in the aggregate principal amount of \$7,090,000. Proceeds of the Series 2008 Bonds in the amount of \$\_\_\_\_\_ will be used for the purpose of partially refunding the Existing Indebtedness To Be Discharged. The certificate holders of the Existing Indebtedness To Be Discharged (the "Certificate Holders") have each agreed to tender their proportionate share of the Existing Indebtedness To Be Discharged for less than their full face value under the Settlement, Tender and Release Agreement on the date of issuance of the Series 2008 Bonds. The Settlement, Tender and Release Agreement provides that once the Series 2008 Bonds are sold and the proceeds are deposited in the various accounts as described in the Settlement, Tender and Release Agreement, the Academy's obligations to the Certificate Holders shall be deemed extinguished and the Existing Indebtedness To Be Discharged shall be cancelled and the declaration of trust pursuant to which Existing Indebtedness To Be Discharged was issued and all other documents related thereto shall cease, terminate and become void.

**EXHIBIT C**  
**TO**  
**FINANCING AGREEMENT**  
**REQUISITION CERTIFICATE**

TO: U.S. Bank National Association, Trustee, and  
Michigan Public Educational Facilities Authority

FROM: Crescent Academy (the "Academy")

RE: \$3,200,000 Michigan Public Educational Facilities Authority Limited Obligation Revenue  
Refunding Bonds (Crescent Academy Project), Series 2008

This represents Requisition Certificate No. \_\_\_\_ in the total amount of \$\_\_\_\_\_ to pay the Existing Indebtedness to Be Discharged and eligible Costs of Issuance and reimburse the Academy for its funds actually advanced for the Costs of Issuance.

The undersigned certifies that:

1. The expenditures for which moneys are requisitioned hereby represent proper charges against the Project Fund for the above-named Series 2008 Bonds, have not been included in a previous requisition and have been properly recorded on the Academy's books.

2. The moneys requisitioned hereby are not greater than those necessary to pay the Existing Indebtedness to Be Discharged and eligible Costs of Issuance and reimburse the Academy for its funds actually advanced for the Costs of Issuance.

3. In the event moneys in the Project Fund after payment of moneys herein requested are insufficient to pay the Existing Indebtedness to Be Discharged and eligible Costs of Issuance, the Academy will pay the remaining portion of the Existing Indebtedness to Be Discharged and eligible Costs of Issuance from such other funds which are available for such purpose.

4. Delivered herewith are copies of invoices or other appropriate documentation supporting the payments or reimbursements requested.

5. No Default or Event of Default under any of the Bond Documents has occurred and continues.

Capitalized terms used but not defined herein shall have the meanings given in the Financing Agreement and Indenture.

Executed this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**CRESCENT ACADEMY**

By: \_\_\_\_\_

Authorized Representative

**EXHIBIT D  
TO  
FINANCING AGREEMENT**

**FORM OF MUNICIPAL OBLIGATION**

No: R-1

**\$3,200,000**

**UNITED STATES OF AMERICA  
STATE OF MICHIGAN  
COUNTY OF OAKLAND**

**CRESCENT ACADEMY**

**SCHOOL BUILDING AND SITE REFUNDING BOND, SERIES 2008**

Holder: MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY

Principal Amount: Three Million Two Hundred Thousand Dollars (\$3,200,000)

Crescent Academy, a Michigan public school academy (the "Issuer"), for value received, hereby promises to pay to the Holder specified above, or its assigns, the Principal Amount specified above at the times and in the amounts specified on the Schedule of Bond Payments, which schedule is attached as Exhibit A to the Financing Agreement, dated as of July 1, 2008 (the "Financing Agreement") between the Michigan Public Educational Facilities Authority (the "Authority") and the Issuer, a copy of which Exhibit A is attached hereto, unless prepaid according to the terms and conditions of the Financing Agreement and the Trust Indenture between the Authority and U.S. Bank National Association, dated as of July 1, 2008 (the "Trust Indenture"). Interest shall be computed and paid as provided in the Financing Agreement and the Trust Indenture.

This bond is issued pursuant to and in full compliance with the Constitution and laws of the State of Michigan (the "State"), particularly Act No. 451, Michigan Public Acts, 1976, as amended ("Act No. 451") and is authorized by a resolution of the board of directors of the Issuer adopted July 22, 2008, for the purpose of (1) refunding certain prior obligations incurred to finance the Issuer's public school academy facilities, and (2) funding of costs of issuance and other financing costs related to the Authority Bonds (as hereinafter defined).

This bond and the interest hereon are general obligations of the Issuer and payable, as a first budget obligation, from any funds of the Issuer available therefor and for the prompt payment of the principal of and interest on this bond, the full faith and credit of the Issuer is hereby irrevocably pledged. Pursuant to the Financing Agreement and the State Aid Agreement, dated July 1, 2008, among the Issuer, the Authority, Bay Mills Community College Board of Regents, as the authorizing body of the Issuer, the Trustee, and the State Treasurer of the State of Michigan, the Issuer has irrevocably pledged its state aid as security for the payment of this bond. The Issuer covenants to annually make an irrevocable appropriation of a sufficient amount of the Pledged State Aid (as that term is defined in the Financing Agreement) for the payment of the principal of this bond, together with the interest hereon.

NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY SCHEDULED PRINCIPAL AND INTEREST ON THIS BOND. THIS BOND DOES NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE OF MICHIGAN, BAY MILLS COMMUNITY COLLEGE

(THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, BAY MILLS COMMUNITY COLLEGE OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THIS BOND. THE ISSUER HAS NO TAXING POWER.

Pursuant to the Financing Agreement, by purchasing this bond, the Authority is loaning the Issuer the proceeds received from the sale of the Authority's \$3,200,000 aggregate principal amount of Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008, dated July 31, 2008 (the "Authority Bonds"), to refinance certain prior obligations incurred to finance the Issuer's public school academy facilities. The Issuer has agreed to repay such loan at the times and in the amounts sufficient for the Authority to make payments of the principal of and redemption premium, if any, and interest on the Authority Bonds as and when due and as initially set forth on the Schedule of Bond Payments attached hereto as Exhibit A and as may be modified from time to time in accordance with the provisions of the Financing Agreement. The Authority Bonds are being issued concurrently with the execution and delivery of this bond, pursuant to, and are secured by, the Trust Indenture. The Issuer has reserved the right to issue additional obligations of equal standing with this bond as to the Security (as defined in the Trust Indenture), subject to the limitations provided by law and subject to the limitations set forth in the Financing Agreement.

It is hereby certified and recited that all acts, conditions and things required by law, precedent to and in the issuance of this bond have been done, exist and have happened in regular and due time and form as required by law, and that the total indebtedness of the Issuer, including this bond, does not exceed any constitutional or statutory limitation.

This bond is issued under and is subject to the terms and conditions of the Financing Agreement.

This bond is to be construed in accordance with the laws of the State of Michigan.

IN WITNESS WHEREOF, the Issuer, by its Board of Directors, has caused this bond to be executed in its name by its duly authorized officer as of the 31st day of July, 2008.

**CRESCENT ACADEMY**

By: \_\_\_\_\_  
Farrita Jackson  
Its: Authorized Officer

**EXHIBIT A**

**Schedule of Bond Payments**

**EXHIBIT E  
TO  
FINANCING AGREEMENT**

**SITE**

The land in the City of Southfield, County of Oakland, State of Michigan, described as follows:

Lot 108 and the West 30 feet of Lot 107 of Bedford Villas No. 2, according to the plat thereof as recorded in Liber 55 of Plats, Page 55, Oakland County Records.

Tax ID: 24-12-351-013

Commonly known as: 17570 W. Twelve Mile Road



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**APPENDIX G**

**FORM OF OPINION OF BOND COUNSEL**

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## FORM OF OPINION OF BOND COUNSEL

Michigan Public Educational Facilities  
Authority  
Lansing, Michigan

Pioneer Investments, as investment advisor  
for Pioneer Municipal High Income  
Advantage Trust  
Boston, Massachusetts

Lord Abbett Municipal Income Trust -  
Lord Abbett High Yield Municipal Bond Fund  
Jersey City, New Jersey

Pacific Investment Management Company,  
LLC, as manager of certain funds and accounts  
Newport Beach, California

Wells Capital Management, Inc., as  
investment advisor to  
Wells Fargo Advantage Municipal Bond Fund  
Menomonee Falls, Wisconsin

U.S. Bank National Association, as Trustee  
St. Paul, Minnesota

Re:     \$3,200,000 Michigan Public Educational Facilities Authority Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008 (the "Bonds")

Ladies and Gentlemen,

We have acted as bond counsel to the Michigan Public Educational Facilities Authority (the "Authority"), in connection with the issuance by the Authority of the Bonds.

The Bonds are authorized to be issued by Executive Order No. 2002-3, compiled at § 12.192 of the Michigan Compiled Laws, the Shared Credit Rating Act, Act No. 227 of the Michigan Public Acts of 1985, as amended, and the Michigan Strategic Fund Act, Act No. 270 of the Michigan Public Acts of 1984, as amended (the "Enabling Legislation"), a bond authorizing resolution adopted by the Authority on July 30, 2008 (the "Bond Resolution") and a Trust Indenture, dated as of July 1, 2008 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are being sold pursuant to a Bond Placement Agreement, dated July 30, 2008 (the "Bond Placement Agreement"), among the Issuer, Fifth Third Securities, Inc., as placement agent (the "Placement Agent") and Crescent Academy, a public school academy organized and operating under the laws of the State of Michigan (the "Academy"), whereby the Authority will sell the Bonds, and the Placement Agent will use its best efforts to privately place the Bonds to Qualified Investors (as defined therein).

The proceeds of the Bonds will be used to (i) purchase a School Building and Site Refunding Bond, Series 2008 dated July 31, 2008 (the "Municipal Obligation") of the Academy, evidenced by a Financing Agreement, dated as of July 1, 2008 (the "Financing Agreement"), between the Academy and the Authority, and (ii) pay costs of issuance of the Bonds. The Academy will use the proceeds of the Bonds to refinance certain indebtedness incurred by the Academy to acquire its public school academy facilities.

Under the Financing Agreement, the Academy has agreed to make installment payments to be used to pay when due the principal of, premium (if any) and interest on the Bonds. Pursuant to the Indenture, such installment payments, the rights of the Authority under the Financing Agreement (except certain rights to indemnification, reimbursement and administrative fees), and all moneys and securities held in funds established under the Indenture are pledged and assigned by the Authority to the Trustee as security for the Bonds (collectively, the "Security"). The Bonds are payable solely from the Security.

As additional security for the Bonds, the Academy will execute and deliver a Future Advance Mortgage, dated as of July 1, 2008 (the "Mortgage"), in favor of the Trustee whereby the real estate and related improvements refinanced with the proceeds of the Bonds, along with other property of the Academy, will be pledged to the Trustee to secure the Academy's obligations under the Financing Agreement. We note that various issues concerning the enforceability of the Mortgage are addressed in the opinion of Clark Hill PLC, counsel to the Academy, provided to

you, and we express no opinion herein as to the validity or enforceability of the Mortgage or any of the liens created thereby.

With respect to the valid existence of the Academy as a Michigan public school academy, the power of the Academy to enter into and perform its obligations under the Financing Agreement and other documents to which it is a party, the due authorization, execution and delivery of the Financing Agreement, the Municipal Obligation and the other documents to which the Academy is a party and the validity and enforceability of them against the Academy, we refer you to the opinion of Clark Hill PLC, counsel to the Academy, dated the date of this opinion and addressed to you.

We have assumed the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Academy contained in the Financing Agreement and the Indenture, the certified proceedings and other certifications of public officials and others furnished to us, including a nonarbitrage certificate of the Authority and a nonarbitrage and tax compliance certificate of the Academy and certifications furnished to us by or on behalf of the Authority and the Academy, without undertaking to verify the same by independent investigation.

Based upon, and subject to, the foregoing, we are of the opinion that, under existing law:

1. The Authority is a public body corporate and politic validly existing under the laws of the State of Michigan with the power to enter into and perform its obligations under the Indenture, the Financing Agreement and the Bond Placement Agreement and to issue the Bonds.

2. The Indenture, the Financing Agreement, the State Aid Agreement (as defined in the Financing Agreement), and the Bond Placement Agreement have been duly authorized, executed and delivered by the Authority and are valid and binding obligations of the Authority enforceable upon the Authority in accordance with their terms, subject to the limitations set forth below. The Indenture creates a valid lien on the Security and on the rights of the Authority under the Financing Agreement (except certain rights to indemnification, reimbursement and administrative fees).

3. The Bonds have been duly authorized, executed and delivered by the Authority, and are valid and legally binding limited obligations of the Authority, payable solely from the Security.

4. Under existing statutes, regulations, rulings and court decisions as presently interpreted, the interest on the Bonds (i) is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended, and all rules and regulations promulgated thereunder (the "Code"), and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The exclusion from gross income under the Code may become inapplicable with respect to the Bonds retroactively to the date of issuance of the Bonds upon the occurrence of certain subsequent events, including without limitation: (A) the expending of Bond proceeds in a manner or for a use inconsistent with certain applicable requirements of the Code, or (B) the investing of "gross proceeds" of the Bonds at yields greater than the yield on the Bonds to the extent prohibited by Section 148 of the Code or failing to rebate timely to the United States monies required to be so rebated pursuant to Section 148(f) of the Code. The Academy, on behalf of itself and the Authority, has covenanted to comply with all applicable requirements of the Code. We express no opinion regarding other collateral federal tax consequences arising with respect to the Bonds or the ownership thereof.

5. The Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture, the Financing Agreement and the Bond Placement Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding (i) the accuracy, adequacy or completeness of any disclosure document relating to the Bonds, including the Limited Offering Memorandum, dated July 30, 2008, or (ii) the perfection or priority of the lien on the Security or other funds created by the Indenture.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

VARNUM, RIDDERING, SCHMIDT & HOWLETT LLP

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**APPENDIX H**

**FORM OF OPINION OF THE  
ATTORNEY GENERAL**

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## FORM OF OPINION OF THE ATTORNEY GENERAL

Michigan Public Educational Facilities Authority  
Richard H. Austin Office Building  
Lansing, Michigan

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the Michigan Public Educational Facilities Authority (the "Authority") of bonds designated MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY LIMITED OBLIGATION REVENUE REFUNDING BONDS (CRESCENT ACADEMY PROJECT) SERIES 2008 in the aggregate principal amount of \$3,200,000 (the "Bonds"):

(1) Executive Order 2002-3, the Shared Credit Rating Act, 1985 PA 227, as amended, and the Michigan Strategic Fund Act, 1984 PA 270, as amended, (the "Enabling Legislation") which collectively created the Authority and empowered it to issue revenue bonds;

(2) a certified copy of the resolution adopted by the Authority on July 30, 2008 authorizing the issuance of the Bonds (the "Resolution");

(3) an executed counterpart of the trust indenture dated as of July 1, 2008 (the "Indenture"), entered into between the Authority and U.S. Bank National Association, as trustee (the "Trustee");

(4) an executed counterpart of the financing agreement dated as of July 1, 2008 (the "Financing Agreement") entered into between the Authority and Crescent Academy, a Michigan public school academy (the "Academy");

(5) executed counterparts of the state aid agreement dated as of July 1, 2008, (the "State Aid Agreement") among the Authority, the Trustee, the State Treasurer, Bay Mills Community College Board of Regents and the Academy;

(6) a Nonarbitrage Certificate of the Authority;

(7) the Bonds as executed, or a specimen thereof; and

(8) one bond issued by the Academy (the "Municipal Obligation").

The Bonds are being issued for the purpose of (i) purchasing the Academy's Municipal Obligation as evidenced by the Financing Agreement; and (ii) providing funds to pay certain costs relating to the issuance of the Bonds. The Academy will use the proceeds of the Bonds to refinance certain indebtedness incurred by the Academy to acquire its public school academy facilities.

By the terms of the Financing Agreement, the Academy has contracted to make repayments at times and in amounts sufficient to enable the Authority to pay the principal of, premium, if any, and interest on the Bonds. Pursuant to the Indenture, the repayments to the Authority from the Academy and certain rights of the Authority (to the extent specified in the Indenture) have been assigned by the Authority to the Trustee as security for the Bonds.

The Academy will execute and deliver a future advance mortgage (the "Mortgage") in favor of the Trustee as additional security for the Bonds.

In rendering this opinion, I have relied upon the opinion, dated today, of Clark Hill PLC, counsel for the Academy, to the effect that the Financing Agreement and Mortgage are valid and binding obligations of the Academy and as to other matters set forth in the opinion. I express no opinion as to the validity or enforceability of the Municipal Obligation, the Mortgage, or any liens created thereby. I have assumed the due authorization,

execution, and delivery by, and the binding effect upon and the enforceability against, the Trustee of the Indenture. I have also assumed the accuracy of and relied upon the information and representations contained in the Financing Agreement and the certificates of the Academy (including specifically the representation that the Academy is a public school academy under Michigan law and the representation and covenant by the Academy that it will comply with Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”) and I have made no independent investigation of the accuracy of the information and representations contained therein.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Authority is a public body corporate and politic of the State duly organized and validly existing under the Constitution and the laws of the State, including particularly the Enabling Legislation.

2. The Authority has the power under the laws of the State to adopt the Resolution. The Resolution has been duly adopted by the Authority, is in full force and effect in the form adopted, and is the valid and binding action of the Authority.

3. The Indenture, the Financing Agreement and the State Aid Agreement have been duly authorized, executed, and delivered by the Authority and constitute valid and binding agreements of the Authority enforceable in accordance with their terms.

4. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly authenticated, will constitute valid and binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and interest thereon solely from the security pledged therefor under the Indenture (which security includes the Municipal Obligation) or otherwise provided by the Academy.

5. The Bonds are limited obligations of the Authority. The Bonds, including the interest thereon, are not general obligations of the Authority and do not constitute obligations, debts, or liabilities of the State and do not constitute a charge against the general credit of the Authority or a charge against the credit or taxing power of the State. The Authority has no taxing power.

6. Interest on the Bonds (i) is excluded from gross income for federal income tax purposes, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the Academy and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be, or continue to be, excluded from gross income for federal income tax purposes. The Academy has covenanted for itself and on behalf of the Authority to comply with each such requirement. Failure to comply with certain of those requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. I express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds, the Indenture, the Financing Agreement, and the State Aid Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors’ rights that have been or in the future will be enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion including the application of general principles of equity.

I express no opinion on the investment quality of the Bonds or whether the facts, figures, or financial information or other statements made respecting the Academy contained any untrue statement of a material fact or

omitted to state a material fact necessary in order to make those statements, in the light of the circumstances under which they were made, not misleading.

Sincerely yours,

MIKE COX  
Attorney General

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Assistant Attorney General

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Assistant Attorney General

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**APPENDIX I**

**FORM OF CONTINUING  
DISCLOSURE AGREEMENT**

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## FORM OF CONTINUING DISCLOSURE AGREEMENT

### CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT, dated as of the 1st day of July, 2008 (this "Disclosure Agreement"), is executed and delivered by CRESCENT ACADEMY, a public school academy of the State of Michigan (the "Academy").

#### WITNESSETH:

WHEREAS, this Disclosure Agreement is being executed and delivered in connection with the issuance by the Michigan Public Educational Facilities Authority (the "Authority") of \$3,200,000 in aggregate principal amount of its Limited Obligation Revenue Refunding Bonds (Crescent Academy Project), Series 2008 (the "Bonds");

WHEREAS, the Bonds are being issued pursuant to a Trust Indenture dated as of July 1, 2008 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee");

WHEREAS, the proceeds of the Bonds are being used to refinance certain prior obligations incurred to finance the Academy's public school academy facilities and other uses as described in the Indenture; and

WHEREAS, to provide for the availability of certain information relating to the Bonds and the Academy, the Academy is executing and delivering this Disclosure Agreement.

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained, the Academy does hereby agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Academy for the benefit of the Bondholders and Beneficial Owners of the Bonds.

Section 2. Representations. The Academy represents and warrants (a) it has all requisite power and authority to execute, deliver and perform this Agreement under applicable law and any resolutions or other actions of such party now in effect, (b) it has duly authorized the execution and delivery of this Agreement, (c) the execution and delivery of this Agreement and performance of the terms hereof by the Academy does not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument to which it is a party or by which it is bound, (d) to its best knowledge, no litigation, proceeding or administrative matter is pending to which it is a party, or overtly threatened, contesting or questioning the legal existence of such party, its power and authority to enter into and perform this Agreement or its due authorization, execution and delivery of this Agreement and (e) it is the only "obligated person" in respect of the Bonds within the meaning of the Rule.

Section 3. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" means financial information or operating data applicable to the Academy for its most recent fiscal year after the fiscal year ending on or after June 30, 2008, together with Audited Financial Statements, if available, or Unaudited Financial Statements.

"Annual Report" means any Annual Report provided by the Academy pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

"Audited Financial Statements" means annual financial statements, if any, of the Academy, audited by such auditor as shall then be required or permitted by law, and prepared in accordance with GAAP applied on a consistent basis provided, however, that the Academy may from time to time in accordance with GAAP and subject to applicable federal or state legal requirements modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to (i) either each National Repository or the MSRB and (ii) the State Repository.

"Beneficial Owner" means any person or entity which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including any person or entity holding Bonds through nominees, depositories or other intermediaries).

"Bondholder" means the registered owner of any Bond.

"Disclosure Statement" means the Limited Offering Memorandum for the Bonds, dated July 30, 2008.

"DisclosureUSA" means the internet-based electronic filing system at [www.disclosureusa.org](http://www.disclosureusa.org) operated by the Municipal Advisory Council of Texas or its successor, or any other organization or method approved by the staff members of the SEC as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

"Dissemination Agent" means the Academy or any agent designated as such in writing by the Academy and which has filed with the Academy a written acceptance of such designation, and such agent's successors and assigns.

"GAAP" means generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Government Accounting Standards Board in effect from time to time.

"Listed Events" means any of the events listed in Section 6(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board whose address for purposes of this Disclosure Agreement is as follows:

CDINet  
1900 Duke Street, Suite 600  
Alexandria, VA 22314  
Tel: (703) 797-6600  
Fax: (703) 683-1930

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently the following are National Repositories:

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, NJ 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
<http://www.bloomberg.com/markets/rates/municontacts.html>  
Email: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
<http://www.MuniFILINGS.com>  
Email: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)

Interactive Data Pricing and Reference Data, Inc.  
Attn: NRMSIR  
100 William Street, 15th Floor  
New York, NY 10038  
Phone: (212) 771-6999; (800) 689-8466  
Fax: (212) 771-7390  
<http://www.interactivedata-prd.com>  
Email: [NRMSIR@interactivedata.com](mailto:NRMSIR@interactivedata.com)

Standard & Poor's Securities Evaluations, Inc.  
55 Water Street  
45th Floor  
New York, NY 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
<http://www.disclosuredirectory.standardandpoors.com>  
Email: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)

"1934 Act" means the Securities Exchange Act of 1934, as amended.

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12 adopted by the SEC pursuant to the 1934 Act, as the same may be amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"State" means the State of Michigan.

"State Repository" means any public or private repository or entity designated by the State as a state information depository repository for purposes of the Rule and recognized as such by the SEC. Currently the following is the only State Repository:

Municipal Advisory Council of Michigan  
1445 First National Building  
Detroit, MI 48226-3517  
Tel: (313) 963-0420  
Fax: (313) 963-0943  
<http://www.macmi.com>  
Email: [mac@macmi.com](mailto:mac@macmi.com)

"Tax-exempt" means that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax.

"Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

#### Section 4. Provision of Annual Reports.

(a) Each year, the Academy shall provide, or shall cause the Dissemination Agent to provide, on or before the 180th day after the end of the fiscal year of the Academy, to each Repository, an Annual Report for the preceding fiscal year which is consistent with the requirements of Section 5 of this Disclosure Agreement. Currently, the Academy's fiscal year ends on June 30. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided, however, that if the Audited Financial Statements of the Academy are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and Unaudited Financial Statements shall be included in the Annual Report.

(b) If the Academy is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Academy shall send a notice in a timely manner to each National Repository the MSRB and to the State Repository in substantially the form attached as Appendix A.

(c) If the Academy's fiscal year changes, the Academy shall send a notice of such change to each Repository. If such change will result in the Academy's fiscal year ending on a date later than the ending date prior to such change, the Academy shall provide notice of such change to each National Repository or the MSRB and to the State Repository on or prior to the deadline for filing the Annual Report in effect when the Academy operated under its prior fiscal year. Such notice may be provided to each Repository along with the Annual Report, provided that it is filed at or prior to the deadline described above.

(d) The Academy, or a Dissemination Agent on behalf of the Academy, if one has been appointed by the Academy, shall determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository (such information being currently available at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm)).

(e) If a Dissemination Agent has been appointed by the Academy, (i) the Academy shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to the date by which it must be provided to each Repository under subsection (a) above and (ii) the Dissemination Agent shall file a report with the Academy certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 5. Content of Annual Reports. The Academy's Annual Report shall contain or include by reference the following:

- (a) the Audited Financial Statements of the Academy; and
- (b) the information relating to the Academy contained in the Disclosure Statement and appearing in the tables under the following headings:
  - (1) Enrollment;
  - (2) State Aid Payments; and
  - (3) General Fund Budget.

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues of the Academy or related public entities, which previously have been provided to each of the Repositories or filed with the MSRB. Notwithstanding the foregoing, if the document incorporated by

reference is a final official statement, it need only be available from the MSRB. The Academy shall clearly identify each such other document so included by reference.

Section 6. Reporting of Significant Events.

(a) The Academy agrees to provide, or cause to be provided, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner and in accordance with the Rule:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the Tax-Exempt status of the security;
- (7) Modifications to rights of security holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities; and
- (11) Rating changes.

(b) Whenever the Academy obtains knowledge of the occurrence of a Listed Event, the Academy shall as soon as possible determine if such event would constitute material information for the Bondholders or Beneficial Owners, provided, that any event under Section 6(a)(1), (8), (9), (10) or (11) above (only with respect to any change in any rating on the Bonds) will always be deemed to be material.

(c) If the Academy determines in the exercise of its best judgment in good faith that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Academy shall promptly cause a notice of the occurrence of a Listed Event to be filed with each National Repository or the MSRB and with the State Repository, together with a material event notice cover sheet substantially in the form attached as Appendix B. In connection with providing a notice of the occurrence of a Listed Event described in Section 6(a)(9) above, the Academy shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

Section 7. Termination of Reporting Obligation. The Academy's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption in full or payment in full of all of the Bonds. Notwithstanding the foregoing, (i) if the Rule shall be amended, modified or changed so that all or any part of the information currently required to be provided under the Rule shall no longer be required to be provided, then such information shall no longer be required to be provided under this Disclosure Agreement; and (ii) if and to the extent the Rule or any provision of the Rule shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Bonds, then the information required to be provided under this Disclosure Agreement, insofar as it was required to be provided by a provision of the Rule so declared, shall no longer be required to be provided under this Disclosure Agreement.

Section 8. Dissemination Agent. The Academy, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent with or without appointing a successor Dissemination Agent. The Dissemination Agent shall only have such duties as are specifically set forth in this Disclosure Agreement.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, this Disclosure Agreement may be amended, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the Academy, or type of business in which the Academy is engaged;

(b) The Disclosure Agreement, as so amended or taking into account such waiver, would in the opinion of counsel, expert in federal securities laws, have complied with the requirements of the Rule at the time of

the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners of the Bonds pursuant to the terms of the Indenture.

If the amendment results in a change to the Annual Financial Information required to be included in the Annual Report pursuant to Section 5 of this Disclosure Agreement, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. Further, if the Annual Financial Information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Academy from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Academy chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Academy shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Failure to Comply. In the event of a failure of the Academy to comply with any provision of this Disclosure Agreement, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Academy to comply with its obligations under this Disclosure Agreement. A failure to comply under this Disclosure Agreement shall not be deemed a default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Academy to comply with this Disclosure Agreement shall be an action to compel performance. Notwithstanding the foregoing, if the alleged failure of the Academy to comply with this Disclosure Agreement is the inadequacy of the information disclosed pursuant to this Disclosure Agreement, then the Bondholders and the Beneficial Owners (on whose behalf a Bondholder has not acted with respect to this alleged failure) of not less than a majority of the aggregate principal amount of the then outstanding Bonds must take the actions described above, before the Academy shall be compelled to perform with respect to the adequacy of information disclosed pursuant to this Disclosure Agreement. No person or entity shall be entitled to recover any monetary damages for a default under this Disclosure Agreement under any circumstances, and any failure to comply with the obligations under this Disclosure Agreement shall not constitute a default with respect to the Bonds or under the Indenture.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Academy, and the Bondholders or Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Optional DisclosureUSA Filing. Any filing under this Disclosure Agreement may be made solely by transmitting such filing to DisclosureUSA as provided at [www.disclosureusa.org](http://www.disclosureusa.org) unless the SEC withdraws the interpretive advice in its letter to the Municipal Advisory Council of Texas dated September 7, 2004.

Section 14. Governing Law. This Disclosure Agreement shall be construed and interpreted in accordance with the laws of the State of Michigan.

CRESCENT ACADEMY

Dated: July 31, 2008

By: \_\_\_\_\_

Farrita Jackson  
Its: Authorized Officer

APPENDIX A

NOTICE TO EACH NATIONAL REPOSITORY OR THE MSRB  
AND TO THE STATE REPOSITORY  
OF FAILURE TO FILE ANNUAL REPORT

Name of Academy: Crescent Academy, Oakland County, Michigan  
Name of Bond Issue: \$3,200,000 Limited Obligation Revenue Refunding Bonds,  
Series 2008  
Date of Bonds: July 31, 2008

NOTICE IS HEREBY GIVEN that Crescent Academy has not provided an Annual Report with respect to the above-named Bonds as required by Section 5 of the Continuing Disclosure Agreement dated as of July 1, 2008. The Academy anticipates that the Annual Report will be filed by \_\_\_\_\_.

CRESCENT ACADEMY

Dated: \_\_\_\_\_, 20\_\_\_\_

By \_\_\_\_\_

Its \_\_\_\_\_

APPENDIX B

MATERIAL EVENT NOTICE COVER SHEET

This cover sheet and material event notice should be sent to the Municipal Securities Rulemaking Board or to all Nationally Recognized Municipal Securities Information Repositories, and the State Information Repository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Academy's and/or other Obligated Person's Name:

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Academy's Six-Digit CUSIP Number(s):

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or Nine-Digit CUSIP Number(s) to which this material event notice relates:

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Number of pages of attached material event notice:

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Description of Material Events Notice (Check One):

1. ☐ Principal and interest payment delinquencies
2. ☐ Non-payment related defaults
3. ☐ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ☐ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ☐ Substitution of credit or liquidity providers, or their failure to perform
6. ☐ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ☐ Modifications to rights of securities holders
8. ☐ Bond calls
9. ☐ Defeasances
10. ☐ Release, substitution, or sale of property securing repayment of the securities
11. ☐ Rating changes
12. ☐ Failure to provide annual financial information as required
13. ☐ Other material event notice (specify)

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I hereby represent that I am authorized by the Academy or its agent to distribute this information publicly:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Employer: \_\_\_\_\_



City, State, Zip Code: \_\_\_\_\_

Voice Telephone Number (\_\_\_\_\_) \_\_\_\_\_

**Please print the material event notice attached to this cover sheet in 10-point type or larger. The cover sheet and notice may be faxed to the MSRB at (703) 683-1930. Contact the MSRB at (703) 797-6600 with questions regarding this form or the dissemination of this notice. The cover sheet and notice may also be faxed to the MAC at (313) 963-0943.**

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**APPENDIX J**

**SUMMARY OF REQUIREMENTS  
FOR SCHOOLS NOT MAKING AYP  
UNDER THE NO CHILD LEFT BEHIND ACT**

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## THE NO CHILD LEFT BEHIND ACT

### Introduction: No Child Left Behind

ON JAN. 8, 2002, PRESIDENT BUSH SIGNED INTO LAW THE *NO CHILD LEFT BEHIND ACT OF 2001* (NCLB) CONTAINING EXTENSIVE CHANGES TO THE ELEMENTARY AND SECONDARY EDUCATION ACT (ESEA) ENACTED IN 1965. NCLB CHANGES THE FEDERAL GOVERNMENT'S ROLE IN K-12 EDUCATION BY ASKING AMERICA'S SCHOOLS TO DESCRIBE THEIR SUCCESS IN TERMS OF WHAT EACH STUDENT ACCOMPLISHES. NCLB CONTAINS THE PRESIDENT'S FOUR BASIC EDUCATION REFORM PRINCIPLES: STRONGER ACCOUNTABILITY FOR RESULTS, INCREASED FLEXIBILITY AND LOCAL CONTROL, EXPANDED OPTIONS FOR PARENTS, AND AN EMPHASIS ON TEACHING METHODS THAT HAVE BEEN PROVEN TO WORK.

Under NCLB, an "accountable" education system involves several critical steps:

- States creating their own standards for what a child should know and learn for all grades. States were required to develop standards immediately for math and reading, and to develop standards for science by the 2005-06 school year.
- With standards in place, states must test every student's progress toward those standards by using tests that are aligned with the standards. Since the 2002-03 school year, all schools have been required to administer tests in each of three grade spans: grades 3-5, grades 6-9, and grades 10-12. Since the 2005-06 school year, tests have been required every year in grades 3 through 8 in math and reading. As of the 2007-08 school year, science achievement must also be tested.
- Each state, school district, and school is expected to make adequate yearly progress ("AYP") toward meeting state standards. This progress is measured for all students by sorting test results for students who are economically disadvantaged, from racial or ethnic minority groups, have disabilities, or have limited English proficiency.
- School and district performance is publicly reported in district and state report cards. Individual school results are included in the district report cards.
- Districts and schools that continually fail to make adequate progress toward the standards are held accountable.

The U.S. Department of Education website (<http://www.ed.gov>) has more detailed information about NCLB.

### Title I Funding<sup>2</sup>

Title I, Part A, is intended to help ensure that all children have the opportunity to obtain a high-quality education and reach proficiency on challenging state academic standards and assessments. Less than one-third (29 percent) of all fourth-grade students performed at or above the proficient level on the National Assessment of Educational Progress (NAEP) in reading in 2000. The percentage of students reaching proficiency was even lower for low-income students (13 percent), African Americans (10 percent), Hispanics (13 percent), students with disabilities (8 percent), and students with limited English proficiency (3 percent).

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<sup>2</sup> Source: U.S. Department of Education, Office of Elementary and Secondary Education, *No Child Left Behind: A Desktop Reference*, Washington, D.C., 2002 (hereinafter, "*NCLB: A Desktop Reference*"). A complete copy of this report is available on the U.S. Department of Education's Web site at: <http://www.ed.gov/admins/lead/account/nclbreference/reference.pdf>.

As the largest federal program supporting elementary and secondary education (funded at \$10.4 billion in FY 2002), Title I allocates resources to the districts and schools where the needs are greatest. Schools with poverty rates of 50 percent or higher received 73 percent of Title I funds in the 1997-98 school year, and nearly all (96 percent) of the highest-poverty schools (those with 75 percent or more low-income students) received Title I funds.

Title I provides flexible funding that may be used to provide additional instructional staff, professional development, extended-time programs, and other strategies for raising student achievement in high-poverty schools. The program focuses on promoting schoolwide reform in high-poverty schools and ensuring students' access to scientifically-based instructional strategies and challenging academic content. Title I provisions provide a mechanism for holding states, school districts, and schools accountable for improving the academic achievement of all students and turning around low-performing schools, while providing alternatives to students in such schools to enable those students to receive a high-quality education.

#### NCLB: Focuses on What Works<sup>3</sup>

- Requires that Title I funds be used only for effective educational practices. Title I schoolwide and targeted assistance programs are required to use effective methods and instructional strategies that are grounded in scientifically based research. School improvement plans, professional development, and technical assistance that districts provide to low-performing schools must be based on strategies that have a proven record of effectiveness.
- Required states to develop plans with annual measurable objectives to ensure that all teachers teaching in core academic subjects were highly qualified by the end of the 2005-06 school year.
- Requires local school districts to ensure that all Title I teachers in core academic subjects hired after the first day of the 2002-03 school year are "highly qualified." For new teachers, this means being certified by the state (including alternative routes to state certification), holding at least a bachelor's degree, and demonstrating subject area competency.
- Strengthens corrective action (required after two years of school improvement) to include actions more likely to bring about meaningful change at the school, such as replacing school staff responsible for the continued failure to make AYP, implementing a new curriculum, and reorganizing the school internally.
- Mandates the fundamental restructuring of any school that fails to improve over an extended period of time, including reopening the school as a public school academy or turning over school operations either to the state or to a private company with a demonstrated record of effectiveness.
- Strengthens paraprofessional requirements to include two years of postsecondary education or, for an applicant with a high school diploma, the demonstration of necessary skills on a formal state or local academic assessment. All new hires must meet these requirements, and existing paraprofessionals have four years to comply with them.
- Emphasizes that paraprofessionals may not provide instructional support services except under the direct supervision of a teacher.

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<sup>3</sup> Source: *NCLB: A Desktop Reference*.

#### NCLB: Reduces Bureaucracy and Increases Flexibility<sup>4</sup>

- Expands eligibility for schoolwide programs. The poverty threshold for schoolwide programs, which enable schools to use Title I funds to raise the achievement of at-risk students by improving the quality of instruction throughout the school, has been lowered from 50 percent to 40 percent.

#### NCLB: Increases Accountability for Student Performance<sup>5</sup>

- Requires annual assessments in grades 3-8 that include all students.
- Requires state and local report cards on student academic achievement.
- Requires states to implement a single statewide accountability system.
- Tightens provisions concerning adequate yearly progress by requiring states to specify annual measurable objectives to measure student progress to ensure that all groups of students disaggregated by poverty, race and ethnicity, disability, and limited English proficiency data-reach proficiency in reading and math within 12 years.
- Substantially increases funding for state and local support for school improvement (from one-half percent of Title I funds under the 1994 Elementary and Secondary Education Act reauthorization to 2 percent under the No Child Left Behind Act, rising to 4 percent in 2004). Also establishes a separate \$500 million authorization for Assistance for Local School Improvement grants.

#### NCLB: Empowers Parents<sup>6</sup>

- Requires local school districts to offer public school choice to students in schools identified for improvement, corrective action, or restructuring so that no student is trapped in an underperforming school. School districts must provide transportation for eligible students, subject to the 20 percent rule described below.
- Requires school districts to permit low-income students attending chronically underperforming schools to obtain supplemental educational services from a public- or private-sector provider that has been approved by the state. Faith-based organizations are eligible to apply for approval to provide supplemental educational services.
- Requires school districts to spend an amount equal to 20 percent of their Part A funds for transportation of students who exercise a choice option or for supplemental educational services, unless a lesser amount is needed to meet all requests. These funds do not have to be taken from Title I allocations, but may be provided from other allowable federal, state, local or private sources.
- Notifies parents of school choice and supplemental educational services options. Requires districts to “promptly” notify parents of eligible students attending schools identified for improvement, corrective action, or restructuring of their option to transfer their child to a better public school or to obtain supplemental educational services.
- Establishes Parents’ “Right to Know” provision. Requires local school districts to annually notify parents of their right to request information on the professional qualifications of their children’s teachers.

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<sup>4</sup> Source: *NCLB: A Desktop Reference*.

<sup>5</sup> Source: *NCLB: A Desktop Reference*.

<sup>6</sup> Source: *NCLB: A Desktop Reference*.

### How It Works<sup>7</sup>

Title I, Part A, provides formula grants to school districts, which then allocate most of these funds to individual Title I schools based on their number of poor children. Schools may use Title I funds for one of two approaches:

- Schoolwide programs. High-poverty schools (those with 40 percent or more students from low-income families) are eligible to adopt schoolwide programs to raise the achievement of low-achieving students by improving instruction throughout the entire school, thus using Title I funds to serve all children.
- Targeted assistance programs. Schools that are not eligible for (or do not choose to operate) schoolwide programs must use Title I funds to provide targeted services to low-achieving students.

Title I funds may be used for a variety of services and activities, most commonly for instruction in reading and mathematics. The legislation encourages the use of strategies such as extended day (before- and afterschool programs), extended year, and summer programs to increase learning time. Although districts and schools may use Title I funds to serve children from preschool age through high school, most focus these funds on students in the early grades; three-quarters (77 percent) of Title I participants are in preschool through grade 6.

### Key Requirements<sup>8</sup>

The No Child Left Behind Act strengthens Title I requirements for state assessments, accountability systems, and support for school improvement. The law also establishes minimum qualifications for teachers and paraprofessionals in Title I programs.

### Assessments<sup>9</sup>

By the 2005-06 school year, states must develop and implement annual assessments in reading and mathematics in grades 3 through 8 and at least once in grades 10-12. By 2007-08, states also must administer annual science assessments at least once in grades 3-5, grades 6-9, and grades 10-12. These assessments must be aligned with state academic content and achievement standards and involve multiple measures, including measures of higher-order thinking and understanding.

- Alignment with State Standards. State assessments must be aligned with challenging academic content standards and challenging academic achievement standards. States were required under the previous law to develop or adopt standards in mathematics and reading/language arts, and the new law requires the development of science standards by 2005 and 2006. Their standards must have the same expectations for all children and have at least three achievement levels.

- Inclusion. State assessments must provide for the participation of all students, including students with disabilities or limited English proficiency. Students who have been in schools in the United States for three consecutive years must be assessed in English in the area of reading and language arts.

- Accommodations. State assessments must provide for reasonable accommodations for students with disabilities or limited English proficiency, including, if practicable, native-language versions of the assessment.

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<sup>7</sup> Source: *NCLB: A Desktop Reference*.

<sup>8</sup> Source: *NCLB: A Desktop Reference*.

<sup>9</sup> Source: *NCLB: A Desktop Reference*.



- Annual Assessment of English Proficiency. Beginning with the 2002-03 school year, states must ensure that districts administer tests of English proficiency—that measure oral language, reading, and writing skills in English—to all limited English proficient students.

- Reporting. State assessment systems must produce results disaggregated by gender, major racial and ethnic groups, English proficiency, migrant status, disability, and status as economically advantaged. The assessment system must produce individual student interpretive, descriptive, and diagnostic reports. States must report itemized score analyses to districts and schools.

- Prompt Dissemination of Results. States must ensure that the results of state assessments administered in one school year are available to school districts before the beginning of the next school year. The assessment results must be provided in a manner that is clear and easy to understand and be used by school districts, schools and teachers to improve the educational achievement of individual students.

- Participation in State NAEP. States must participate in biennial National Assessment of Educational Progress (NAEP) assessments in reading and mathematics for fourth- and eighth-graders, beginning in 2002-03. State-level NAEP data will enable policymakers to examine the relative rigor of state standards and assessments against a common metric.

#### Accountability<sup>10</sup>

States must develop and implement a single, statewide accountability system that will be effective in ensuring that all districts and schools make adequate yearly progress, and hold accountable those that do not. Schools that do not make adequate yearly progress will be identified for increasingly rigorous sanctions designed to bring about meaningful change in instruction and performance. Further, students in low performing schools will have the option to transfer to other public schools or to obtain supplemental educational services. Finally, the law mandates the fundamental restructuring of any school that fails to improve over an extended period of time.

- Adequate Yearly Progress. States must establish a definition of adequate yearly progress that each district and school is expected to meet. States must specify annual objectives to measure progress of schools and districts to ensure that all groups of students—including low-income students, students from major racial and ethnic groups, students with disabilities, and students with limited English proficiency—reach proficiency within 12 years. States must set intermediate goals that provide for annual adequate yearly progress targets, with the first increase to occur no later than 2004-05. In order to make adequate yearly progress, schools must test at least 95 percent of their students in each of the above groups.

- Identification of Schools and Districts in Need of Improvement. States must annually review the progress of each school and school district receiving Title I funds to determine whether they are making adequate yearly progress, and then publicize and disseminate the results of the review. Title I schools and districts that fail to make adequate yearly progress for two consecutive years must be identified as in need of improvement.

- Public School Choice. Students in schools identified for improvement must be given the option to transfer to another public school that has not been identified for improvement, with transportation provided as described below.

- Professional development. Schools identified for improvement must spend at least 10 percent of their Title I Part A funds on professional development for the school's teachers and principal that directly addresses the academic achievement problem that caused the school to be identified for improvement.

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<sup>10</sup> Source: *NCLB: A Desktop Reference*.

- **Supplemental Educational Services.** If a school fails to make adequate yearly progress for a third year, students from low-income families in the school must be given the option to use Title I funds to obtain supplemental educational services from a public- or private-sector provider, including faith-based organizations, selected from a list of providers approved by the state.

States must develop and apply objective criteria to potential providers that are based on a demonstrated record of effectiveness in increasing academic proficiency, and must monitor the quality and effectiveness of the services offered by approved providers. States must maintain a list of approved providers across the state, by school district, from which parents may select, and must promote maximum participation by supplemental educational services providers to ensure that parents have as many choices as possible.

- **Funds for Transportation and Supplemental Services.** School districts are required to spend an amount equal to 20 percent of their Title I, Part A, funds to pay for supplemental educational services for eligible students and for transportation of students exercising the public school choice option, unless a lesser amount is needed to meet all requests. These funds do not have to be taken from Title I allocations, but may be provided from other allowable federal, state, local, or private sources, including federal funds under Section 1003, Title V, Part A; Title II, Part A; Title II, Part D; Title IV, Part A; and Title V, Part A (in some cases, these funds may only be used for this purpose under the transferability provision described below).

- **Corrective Action.** If a school fails to make adequate yearly progress for a fourth year, the school district must take corrective actions that are designed to bring about meaningful change at the school. These corrective actions must include at least one of the following: replacing school staff, implementing a new curriculum (with appropriate professional development), decreasing management authority at the school level, appointing an outside expert to advise the school, extending the school day or year or reorganizing the school internally. Similarly, if a school district fails to make adequate yearly progress for four years, the state must take corrective actions that must include at least one of the following: deferring programmatic funds or reducing administrative funds; implementing a new curriculum (with professional development); replacing personnel; establishing alternative governance arrangements; appointing a receiver or trustee to administer the district in place of the superintendent and school board; or abolishing or restructuring the school district. The state may also authorize students to transfer to higher-performing public schools operated by another school district (with transportation). States must provide information to parents and the public on any corrective action the state takes with school districts.

- **Restructuring.** If a school fails to make adequate yearly progress for a fifth year, the school district must initiate plans to fundamentally restructure the school. This restructuring may include reopening the school as a public school academy, replacing all or most of the school staff who are relevant to the failure to make adequate progress, or turning over school operations either to the state or to a private company with a demonstrated record of effectiveness.

- **Technical Assistance.** States and school districts must provide technical assistance to schools identified for school improvement, corrective action, or restructuring. States are required to reserve portions of their Title I funding to benefit schools identified for school improvement, corrective action, and restructuring, and they must distribute 95 percent of these reserved funds to school districts. State assistance must include: establishing school support teams; designating and using distinguished teachers and principals who are chosen from schools that have been especially successful in improving academic achievement; and devising additional approaches to providing assistance, such as through institutions of higher education and educational service agencies or other local consortia, and private providers of scientifically based technical assistance.

- **State Report Cards.** States must produce and disseminate annual report cards that provide information on how students are achieving overall as well as information disaggregated by race, ethnicity, gender, English proficiency, migrant status, disability status, and low-income status. The report cards must include:

- State assessment results by performance level, showing two-year trend data for each subject and grade tested, with a comparison between annual objectives and actual performance for each student group. The report cards also must show the percentage of each group of students not tested.

- Graduation rates for secondary school students and any other student achievement indicators that the state chooses.

Performance of school districts on adequate yearly progress measures, including the number and names of schools identified as in need of improvement

- Professional qualifications of teachers in the state, including the percentage of teachers teaching with emergency or provisional credentials and the percentage of classes in the state that are not taught by highly qualified teachers, including a comparison between high- and low-poverty schools.
- School District Report Cards. School districts also must prepare and disseminate annual report cards that include information on student achievement for the district and for each school. As with the state report cards, achievement data must be disaggregated for the same student subgroups. The report cards also must provide information on the schools identified for improvement.
- Annual State Report to the Secretary. States must report annually to the secretary of Education on their progress in developing and implementing academic assessments; students' achievement on the assessments disaggregated by groups of students; and information about acquisition of English proficiency by children with limited English proficiency, the names of schools identified as in need of improvement, public school choice, supplemental service programs, and teacher quality.
- Qualifications for Teachers and Paraprofessionals<sup>11</sup>

The No Child Left Behind Act requires states to ensure that Title I schools provide instruction by highly qualified instructional staff.

- **Highly Qualified Teachers.** States must develop plans with annual measurable objectives that will ensure that all teachers of core academic subjects are highly qualified, which means that they have state certification (which may be alternative state certification), hold a bachelor's degree, and have demonstrated subject area competency. Core academic subjects include English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. All new hires in Title I programs after the start of the 2002-03 school year must meet these requirements; all existing teachers must meet these requirements by the end of the 2005-06 school year. School districts must use at least 5 percent of their Title I funds for professional development to help teachers become highly qualified.

- **Higher Qualifications for Paraprofessionals.** Paraprofessionals in Title I programs must have at least two years of postsecondary education or, for an applicant with a high school diploma, demonstrate necessary skills on a formal state or local academic assessment. All new hires in Title I programs after January 8, 2002, must meet these requirements; existing paraprofessionals have four years from January 8, 2002, to comply with them. However, these requirements do not apply to paraprofessionals used for translation or parent involvement. All paraprofessionals in Title I programs must have a high school diploma or its equivalent.

- **Appropriate Roles for Paraprofessionals.** The law specifies that paraprofessionals may not provide instructional support services except under the direct supervision of a teacher.

#### How It Achieves Quality<sup>12</sup>

Throughout the legislation, there is a strong emphasis on ensuring that Title I funds are used to support educational practices that are based on scientific research. More specifically:

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<sup>11</sup> Source: *NCLB: A Desktop Reference*.

<sup>12</sup> Source: *NCLB: A Desktop Reference*.

- States must assist school districts in developing or identifying high-quality, effective curricula aligned with state academic achievement standards, and must disseminate such curricula to each district and school within the state.
- School districts are required to take into account the experience of model programs for the educationally disadvantaged and the findings of relevant scientifically based research as they develop their plans for services.
- Both schoolwide and targeted assistance programs are required to use effective instructional methods and strategies based on scientifically based research.
- Schools identified for improvement must develop two-year improvement plans that incorporate strategies based on scientifically based research. School districts must provide technical assistance to these schools, such as identifying and implementing professional development, instructional strategies, and methods of instruction that are grounded in scientifically based research and have been proven effective in addressing the specific instructional issues that caused the school to be identified.
  - School districts identified for improvement must incorporate scientifically based research strategies in their improvement plans. State technical assistance to identified school districts must be based on scientifically based research.
  - If a school district is identified for corrective action and a new curriculum is implemented, the state must provide professional development based on scientifically based research.
  - School support teams, whose top priority is to provide assistance to schools subject to corrective action, are to be composed of persons who are knowledgeable about scientifically based research and practice on teaching and learning, as well as about successful schoolwide projects, school reform, and improving educational opportunities for low-achieving students.
  - The law establishes new requirements to ensure that teachers of core academic subjects are highly qualified and requires annual measurable objectives toward these goals for each district and school. In addition, the law requires paraprofessionals to meet more rigorous training and skills requirements.

#### How Performance Is Measured<sup>13</sup>

The No Child Left Behind Act requires states to put into place a series of measurable objectives about student performance that states, school districts, and schools are expected to meet, as well as a series of reporting mechanisms to measure progress. Performance is measured by the progress of schools and districts in making adequate yearly progress in applying the same high standards of academic achievement to all public elementary and secondary school students. Performance information will be publicly disseminated on an annual basis through a system of state and school district report cards. States also must report annually to the secretary of education on: their progress in implementing the requirements of the new law; student achievement on state assessments (disaggregated by groups of students); and information about schools in need of improvement (including the names of such schools), public school choice, supplemental educational services programs, and teacher quality.

#### Key Activities For The State Education Agencies<sup>14</sup>

State education agencies (SEAs) must:

- Produce an annual report card.

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<sup>13</sup> Source: *NCLB: A Desktop Reference*.

<sup>14</sup> Source: *NCLB: A Desktop Reference*.

- Develop and implement annual assessments in reading, language arts, and mathematics in grades 3-8 and at least once in grades 10-12, by 2005-06.
- Develop and implement standards in science by 2005-06 and assessments in science by 2007-08.
- Annually assess the English proficiency of students who are learning the English language.
- Ensure the prompt dissemination of state assessment results (before the beginning of the next school year).
- Participate in biennial state-level NAEP assessments of fourth- and eighth-grade reading and mathematics.
- Define and implement an adequate yearly progress definition for the state, school districts, and schools.
- Annually review the progress of each school district to determine whether schools receiving assistance are making adequate yearly progress and whether each district is carrying out its responsibilities; SEAs also must publicize the results of this review.
- Establish a statewide system of support for districts and schools in need of improvement.
- Ensure that schools provide instruction by highly qualified instructional staff.

#### Description of Michigan's Average Yearly Progress Formula

The No Child Left Behind Act of 2001 provides specific requirements for Adequate Yearly Progress (“AYP”) formulas that are used by individual states. The legislation gives Title I schools and districts the two methods described below to determine whether or not they have made Adequate Yearly Progress. For districts, the methods are applied to the Title I schools in the district as a group.

#### AYP Based on Achievement

A Title I school or district makes AYP for a particular year based on achievement if at least a certain percentage of students meets or exceeds state standards on the Michigan Educational Assessment Program tests, at least 95 percent of the students participated in state assessments, and the school or district has an acceptable attendance or graduation rate. For tests with four achievement levels, students must score in one of the top two achievement levels (Levels 1 and 2) in order to meet state standards. For the older tests with only three achievement levels, students must score in the top level to meet state standards. The required percentage is the same for all schools and districts in the state and is known as the “annual state objective.” The percentages are different for each subject, however, as well as each grade level tested, because they depend on the starting points established in 2002. The annual state objective for each subject and grade level will increase as shown below until it reaches 100 percent for all subjects and grade levels in 2014.

Year	English Language Arts			Mathematics		
	Elem.	Middle	High	Elem.	Middle	High
2002	38%	31%	42%	47%	31%	33%
2003	38%	31%	42%	47%	31%	33%
2004	38%	31%	42%	47%	31%	33%
2005	49%	43%	52%	56%	43%	44%
2006	49%	43%	52%	56%	43%	44%
2007	49%	43%	52%	56%	43%	44%
2008	59%	54%	61%	64%	54%	56%
2009	59%	54%	61%	64%	54%	56%
2010	59%	54%	61%	64%	54%	56%
2011	69%	66%	71%	73%	66%	67%
2012	79%	77%	81%	82%	77%	78%
2013	90%	89%	90%	91%	89%	89%
2014	100%	100%	100%	100%	100%	100%

The annual state objectives apply to the entire group of students in the school or district who took the MEAP English language arts and mathematics tests. They also apply separately to each of the following groups of students, if at least 30 students in the group took a particular MEAP test:

- Students from different racial/ethnic groups
- Students from low-income families
- Students with Limited English Proficiency
- Students with disabilities

For a Title I school or district to make AYP based on achievement, each of the above groups of students must also meet the annual state objective. At least 95 percent of the students in each group must have taken the MEAP or an alternative assessment for limited English proficient students or students with disabilities, and the school or district must also have acceptable attendance or graduation rates.

The most accurate picture of a school's or a district's achievement is sometimes obtained by averaging its MEAP results for two or three years. To determine if a school or district has met the annual state objective, first its results for a particular year are compared to the annual state objective for that year. If the school's or the district's one-year results are below the objective, its results are then averaged for two years to see if the average meets the objective. If the two-year average is still below the objective, the school's or the district's results are averaged for

three years to see if this average meets the objective. If the three-year average is below the objective, the school or district has not made AYP based on achievement.

#### AYP Based on Improvement

If a school or district does not meet the required MEAP percentages to make AYP based on achievement, it can still make AYP by improving its MEAP scores a certain amount from one year to the next, in combination with at least 95 percent participation and acceptable attendance or graduation rates. The required improvement in MEAP scores is based on each school's or district's current achievement level and reflects how far it is from having all students meet state standards. If a school's or a district's achievement levels are different in reading and mathematics, and for the groups of students whose progress must be monitored, the required amounts of improvement are also different. The lower the current achievement level, the more a school, a district, or a group of students must improve in order to make AYP.

The specified formula for each subject area and group of students is a reduction of at least 10 percent in the percentage of students who did not meet state standards in the previous year. For MEAP tests with four achievement levels, students do not meet state standards if they score in the bottom two levels (Levels 3 and 4). For MEAP tests with three achievement levels, students do not meet state standards if they score below the top level. It is important to note that the test results used for AYP based on improvement are year-to-year comparisons, and do not involve the averaging of results for more than one year.

#### Requirements for Districts That Do Not Make AYP<sup>15</sup>

A district that does not make AYP for two consecutive years:

- Must develop a district improvement plan in consultation with parents, staff and any outside expert who is providing assistance;
- Must spend at least 10 percent of its Title I allocation each year on professional development directly tied to the achievement problems; and
- May request assistance from the Michigan Department of Education in developing and implementing its improvement plan. The Department must provide or arrange for the assistance before taking corrective action against the district.

Additional consequences ensue if the district does not make AYP for four consecutive years.

#### Requirements for Schools That Do Not Make AYP<sup>16</sup>

A school does not face any direct consequences for failing to make AYP for one year, but after two consecutive years of not making AYP, a Title I school:

- Must develop a two-year school improvement plan in consultation with parents, staff, and any outside expert who is providing assistance;
- Submit the plan for district review and approval;
- Implement the plan by the beginning of the next school year; and
- Spend at least 10 percent of its Title I allocation each year for two years on professional development directly tied to the achievement problems.

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<sup>15</sup> Source: Michigan Department of Education Web site at [http://www.michigan.gov/mde/0,1607,7-140-22709\\_22875-85933--,00.html](http://www.michigan.gov/mde/0,1607,7-140-22709_22875-85933--,00.html).

<sup>16</sup> Source: Michigan Department of Education Web site at [http://www.michigan.gov/mde/0,1607,7-140-22709\\_22875-85932--,00.html](http://www.michigan.gov/mde/0,1607,7-140-22709_22875-85932--,00.html).



When a Title I school is identified for improvement, the school district must also do the following:

- Offer students in that school the option to transfer on a space-available basis to other district schools that are not identified for improvement;
- Provide or pay for transportation for students who choose to transfer;
- Give priority with respect to transfers and transportation to the lowest-achieving students from low-income families.

As shown in Table 6 of Appendix A to this Limited Offering Memorandum, the Academy made AYP in 2006-2007 and 2007-2008 and received a composite grade of “C” in both the 2006-2007 and 2007-2008 school years.

#### Recent Developments in NCLB: Proposed Regulations<sup>17</sup>

On April 22, 2008, the U.S. secretary of education announced proposed regulations intended to clarify and strengthen certain NCLB provisions. The proposed regulations focus on the areas of assessment, accountability, supplemental education services (SES) and public school choice.

Under the proposed regulations, states would generally have less flexibility in how they assess AYP. Specifically, states’ assessment methods would be subject to department of education and peer review to ensure that they do not improperly exclude achievement data for certain subgroups by requiring those groups to be larger than necessary to provide statistically reliable information. In addition, while states are already required to consider graduation rates in assessing AYP, the proposed regulations would establish by 2012-13 a uniform definition of “graduation rate” that may be more rigorous than the one currently used by some states. States would be required to set a graduation rate goal they expect all high schools to meet and to define how schools demonstrate “continuous and substantial improvement” toward that goal from year to year. By 2012-13, each state would be required to calculate the graduation rate at the school, local education agency, and state levels, and to disaggregate the data by subgroup for assessing AYP. Taken together, the foregoing changes could make it more difficult for schools to make AYP.

In addition to affecting AYP assessment and certain other elements of NCLB, the proposed regulations would (i) strengthen the restructuring requirements for schools that have failed to make AYP for five consecutive years; (ii) establish more detailed requirements for communication with parents regarding school choice and SES; and (iii) expand the purposes for which local education agencies may use certain Title I funding allocations under NCLB.

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<sup>17</sup> Detailed information about the proposed regulations is available from the U.S. Department of Education at <http://www.ed.gov/policy/elsec/reg/proposal/index.html>.

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